



ANNUAL REPORT 2005/2006

In terms of Section 121 of the Municipal Finance Management Act
(Act 56 of 2003)



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Foreword by the Executive Mayor

I present this annual report for the financial year 2005 \ 2006, which will be tabled in Council, to the people of Overstrand. This report mainly covers the activities of the previous Council.

The new Council was inaugurated on 14 March 2006.

During the period until 30 June 2006 the following areas were emphasised:

- Ensuring good governance by the establishment of new ward committees
- The restructuring of the Municipal Manager's office
- The acceptance of the 2006 / 2007 budget with particular emphasis on service delivery and infrastructure provision
- Initiatives to promote the employment of local labour. Two examples thereof are the employment of unemployed people who are in arrear with their municipal accounts on municipal projects as well as the employment of emerging contractors for cleaning services in residential areas.



Unfortunately the report of the Auditor General is disappointing, but the change of audit standards late in October 2006 made it impossible to rectify the previous standards in time to reach the target date for high capacity local authorities countrywide.

I have been informed that this will be the first time that it is possible to comply with the legal requirement that the audit reports must be considered by Council as part of the Annual Report and not separately. The annual report could not be tabled within the time prescribed by law due to the late receipt of the audit report as well as Council being in recess, as explained elsewhere.

My opregte dank aan die publiek, alle raadslede en personeel wat saamwerk om Overstrand as 'n munisipaliteit te laat slaag. 'n Merkwaardige prestasie bly steeds dat sedert die verkiesing van ampsdraers by die eerste vergadering na die verkiesing daar nog geen verdere aangeleentheid tot stemming gebring moes word nie.

Munisipaliteite moet groot uitdagings bestuur om aan al die verwagtinge van die inwoners te voldoen. Slegs goeie bestuur en spanwerk kan ons laat slaag.

Die nuwe GOP sal die rigting aandui rakende die strategie om die volgende vier jaar se doelwitte te verwesenlik.

TB BEYLEVELDT

CHAPTER 1

INTRODUCTION AND OVERVIEW

In compliance with Section 46 of the Local Government: Municipal Systems Act (Act 32 of 2000) (Systems Act) and Section 121 of the Local Government Municipal Finance Management Act (Act 56 of 2003)(MFMA) a municipality must prepare an annual report for each financial year.

This document will provide an overview of the progress made in realising Overstrand's strategic objectives, the people who drove our efforts and the unique challenges and opportunities we faced during the financial year July 2005 – June 2006.

1.1 ESTABLISHMENT IMPERATIVES

The Overstrand Local Municipality (LM) was established in 2000 and covers areas such as Hanglip/Kleinmond, Greater Hermanus, Stanford and Gansbaai. Overstrand LM has been classified as a Category 'B' or local municipality in terms of the Local Government: Municipal Structures Act, (Act 117 of 1998), and afforded the status as a high capacity local authority in terms of the MFMA.

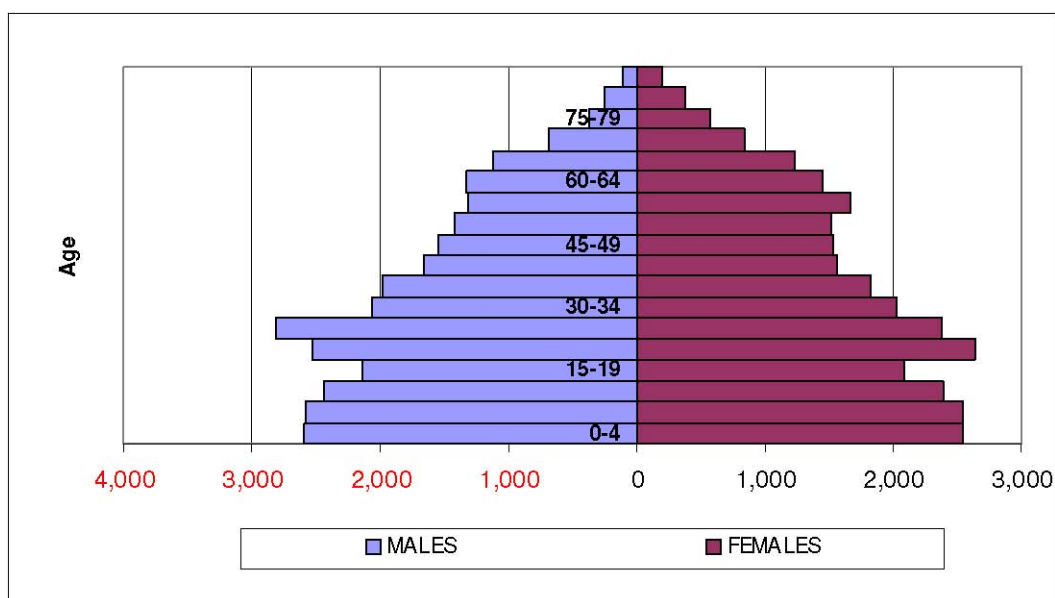
A category 'B' municipality shares municipal executive and legislative authority with a category 'C' or district municipality within whose area it falls, in this case the Overberg District Municipality (ODM). Hermanus hosts the Corporate Head Office of the Overstrand LM.

1.2 DEMOGRAPHIC PROFILE (2001 Census)

The Overstrand LM has the second-largest population in the ODM, constituting an estimated 70 446 people or 30 per cent of the total Overberg District population in 2006. The Overstrand LM's population grew at an average annual rate of 4 per cent from 58 332 people in 2001 to an estimate of 70 446 people in 2006.

The Municipality's population is projected to increase to 80 451 people by 2010. The population of the Overstrand consists of White (38%), followed by Coloureds at 35%, and Black Africans at 27%.

Fig 1: Overstrand population pyramid, 2006



Source: Centre for Actual Research, 2005 (population projections for the Western Cape 2001-2025)

The age-dependency ratio (total number of 0-14-year olds plus 65+-year olds)/working-age population, i.e. number of 15-64-year olds) for the Overstrand is projected to increase from 55.70 per cent in 2001 to 57.81 per cent in 2006 (the highest in the Overberg District), rising to 60.61 per cent by 2010. The median age of the Overstrand population for 2006 is 30.

All age cohorts recorded positive growth between 2001 and 2006, for both males and females. Particularly fast growth occurred in the 85+ years of age-cohort, which grew at an average of 11 per cent per annum, although coming off a small base. Faster growth was also registered for the 70 -74 (9.6%), 75 -79 (8.5%) and 30 - 34 (7.1%) years age-cohorts. Slower growth occurred for people aged between 55 and 59 as well as between 20 and 24 years of age.

1.3 GEOGRAPHICAL OVERVIEW

Overstrand is a dynamic unity combining great potential and a beautiful setting. Our task is to bring about growth and development to the benefit of all our people, in their different communities, whilst maintaining a balance with nature.

The Municipality has a land area of approximately 2 125 km², with a population density of 27 people per square kilometer. The municipal area has a coastline of approximately 200 km, stretching from Rooi Els in the west to Quinn Point in the east and including three remarkable blue flag beaches, namely Kleinmond, Grotto and Hawston.

The area includes the Kogelberg Biosphere Reserve which is only one of 2 such areas in the Republic. It is commonly referred to as the heart of the Cape floral kingdom as roughly one fifth of all known fynbos species occurs here. At the Botriver estuary we find the Arabella luxury resort with the international championship Arabella golf course, international award winning AltiraSPA health spa and six star hotel. Just outside of Gansbaai we find the "Grootbos" nature reserve area. As a result of its commitment to excellence and diversity this reserve has already received numerous National and International awards.

The coastal areas include the well known "Grotto Beach" which has received the prestigious international "Blue Flag" award for 4 consecutive years. Danger Point was the site of the famous sinking of the "Birkenhead".

The region is internationally famous for the abundance of whales which visit Walker Bay on an annual basis to mate and calve. The Hermanus area has been given the tag of "The best land based whale-watching site in the world".

Tourism is a major economic driver in the area and its popularity as a holiday destination results in a fourfold increase of its population over the holiday seasons. This influx places a great strain on the existing municipal services and roads infrastructure.

1.4 **CHALLENGES**

The Overstrand Municipality, not unlike all other local authorities countrywide, faces a series of challenges i.e.

- Provision of infrastructure and basic services on a sustainable basis
- Stimulating local economic development
- Sound management of its financial affairs
- Strengthening continued community participation in the affairs of Local Government
- Provision of subsidised / low cost housing
- Development of a social strategy
- Growing population, unemployment and poverty
- Continued reformation in local government

1.5 **GOVERNANCE STRUCTURES**

During the financial year under review and before the elections on 1 March 2006, Overstrand was governed by an ANC controlled council consisting of 10 ANC, 5 DA, 2 NNP and an ACDP councillor. Following the elections on 1 March 2006

Overstrand is governed by a DA controlled council consisting of 10 DA, 7 ANC, 1 ACDP and 1 ID councillor.

As from 1 March 2006 the Overstrand area was delimited into 10 Wards. The Overstrand now has a total of 19 councillors (previously 18). The Council consists of 10 Ward Councillors who are directly elected and 9 councillors who are elected on a proportional basis based on a party list system. The Municipality has an Executive Mayoral system which is combined with a Ward Participatory system as determined by the Western Cape Provincial Minister for Local Government. The Mayoral Committee consists of the Executive Mayor, Deputy Executive Mayor, plus 3 members that have been appointed by the Executive Mayor.

As a result of the delimitation of wards in the Overstrand, the municipality also structured its public participation forums by establishing Ward Committees during April 2006 in all of its wards as well as setting up an Overstrand wide Municipal Advisory Forum (OMAF). Overstrand was the first municipality to have functional ward committees established in all wards after the election.

1.6 STAFF AND DIRECTORATES

OFFICE OF THE MUNICIPAL MANAGER

The Municipal Manager as head of the administration is responsible and accountable for tasks and functions as provided for in Section 55 of the Systems Act, other functions/tasks as provided for in legislation, as well as functions delegated by the Executive Mayor and Council.

The office of the Municipal Manager consists of the Municipal Manager and Head: Management Services. The latter office also incorporates Internal Audit, Communication Services, Human Resources, IT Services, Strategic Planning and Legal & Council Support services.

DIRECTORATE: FINANCE

The core function of this directorate is to ensure sound financial management.

This directorate consists of the Chief Financial Officer as head of the directorate with the sections Financial Services, Expenditure, Income and Supply Chain Management.

DIRECTORATE: COMMUNITY SERVICES

The main function of this directorate is to ensure that co-operative governance and public participation take place in decentralised administrations and that service delivery takes place.

This directorate consists of a Director, Area Management and the sections Protection Services, Corporate Services and Housing.

DIRECTORATE: ECONOMIC DEVELOPMENT

The main function of this directorate is to promote economic development initiatives, tourism, sustainable job creation, poverty reduction and shared growth that integrates and connects the municipality, its people and its natural resources.

The directorate Economic Development & Tourism consists of a Director and a Local Economic Development Management section where all job creation by the municipality is centred.

DIRECTORATE: INFRASTRUCTURE AND PLANNING

This directorate's focus is the provision of planning and basic services.

This directorate consists of a Director, Infrastructural Management, Environmental Services, Town Planning and Building Control.

CONCLUSION

The municipal manager was re-appointed by Council in April 2006. This also led to a restructuring in order to align the macro structure of the municipality with the five strategic priorities for local government for its term of office (2006 – 2011) in the following way:

- Municipal Transformation, Institutional Development and Good Governance : *Office of the Municipal Manager;*
- Basic Service Delivery and Public Participation : *Director: Community Development;*
- Financial Viability and Financial Management : *Director: Finance;*
- Local Economic Development : *Director Economic Development; and*
- Infrastructure for Service Delivery : *Director Infrastructure and Planning*

CHAPTER 2

PERFORMANCE HIGHLIGHTS

MAJOR ROLE FOR OVERSTRAND IN PUBLIC PARTICIPATION CONFERENCE

Overstrand Municipality played a major role in the Western Cape Public Participation Conference that was held on 21 and 22 July 2005 in Cape Town by sending a strong delegation to the event and doing a best practice presentation on ward committees. The municipality was represented by the Executive Mayor, Municipal Manager, other senior officials, councillors and ward committee members.

AUDIT COMMITTEE APPOINTED

Overstrand Municipality's first audit committee was appointed by Council. Their responsibilities, authority and resources were laid down in an audit charter that was approved earlier this year by the Executive Mayor.

IMPUMELELO PLATINUM AWARD

The Impumelelo Innovations Award Trust bestowed the Overstrand Municipality with its highest honour at the award ceremony in November 2005. The municipality won the platinum award for its "Local Labour Promotion Project", piloted earlier in 2005 in Zwelihle and Hawston, and received a cheque of R50 000 to further its programme in this regard.

RESTRUCTURING

The Municipal Manager, after his re-appointment, re-structured the macro structure of Overstrand into the following directorates:

- Management Services
- Infrastructure and Planning
- Community Services
- Local Economic Development
- Finance

The rationale behind the restructuring was to improve service delivery. Management Services include all the statutory functions of the Municipal Manager listed in Section 55 of the Systems Act. This restructuring is aligned to the strategic priorities for local government for the 2006/2011 term.

INDIGENT POLICY

Council approved a revised Indigent Policy in May for implementation from 1 July 2006. In the new policy the average consumption levels of households to qualify for a subsidy was increased from 12 kilolitres of water per month over a period of 12 months to 15 kilolitres and from 150 kWh of electricity per month over a 12 month period to 300 kWh. The two income categories provided for in the previous policy were replaced by only one, namely twice the amount of the social pension as paid by the State. The duration of the indigent subsidy will in future be open ended with regular audits by the municipality at households to confirm their status. This will be more cost-effective than the current system of re-applying every six months and going through a drawn out process. The cost of the audits will be funded from the National Government's equitable share subsidy. The policy will be applied retrospectively to accommodate those applicants who were disqualified in the past in an effort to bring relief to poor households.

LOCAL GOVERNMENT: MUNICIPALITY PROPERTY RATES ACT, (Act 6 of 2004) (PROPERTY RATES ACT)

All properties in the Overstrand were valued in 2002. A new valuation is imminent in terms of the Property Rates Act. Overstrand's 90% rebate on agricultural land is as far as could be established the highest rebate on agricultural land in the country.

MUNICIPALITY PRESENTED WITH HOUSING AWARD

Overstrand Municipality was awarded the Provincial as well as the National **Best Subsidy Home Builder of the year** for 2005 by the National Homebuilders Registration Council (NHBRC). The award was given for Overstrand Municipality's housing project in Gansbaai, consisting of 350 subsidy units.

INTERNATIONAL BLUE FLAG FOR THE FOURTH TIME TO GROTTA BEACH

This was the fourth consecutive year that this international annual award was given to Grotto Beach, indicating that it is achieving EXCELLENCE in the areas of safety, amenities, cleanliness and environmental standards.

OVERSTRAND'S SPATIAL DEVELOPMENT STRATEGIES

The draft spatial development framework for the Overstrand Municipality was made available for public comment in October 2005.

CLEANEST TOWN

Overstrand achieved second place in the provincial cleanest town competition.

SUMMIT ON LOCAL ECONOMIC DEVELOPMENT

Overstrand Municipality's first Local Economic Development Summit took place on 14 and 15 November 2005. The theme was "Unleashing the economic potential of Overstrand" and it was organised under the leadership of the Director: Economic Development and Planning. (as the title was at that time).

LOCAL ECONOMIC DEVELOPMENT (LED) STRATEGY

In March 2006 Overstrand Municipality started with a series of workshops with different stakeholder groups to finalise and communicate its LED strategy. This process started in 2005 when the municipality signed an agreement with the Development Bank of Southern Africa (DBSA) on the development of an LED strategy which entailed strategic engagement and interventions for the advancement of LED in the Overstrand. A consortium of consultants was tasked to compile the strategy based on established guidelines including intended outcomes. The process has been a consultative one, encouraging participation of all sectors and culminated in a draft outcome report, which suggested strategic interventions for consideration.

MARKETING STRATEGY FOR TOURISM TAKING SHAPE

Bridges have been built at the first business IMBIZO held in Hermanus between the municipality and the business sector and also between the chambers of commerce and the tourism industry.

CLEANING PROJECTS IN PREVIOUSLY DISADVANTAGED AREAS

Overstrand Municipality rolled out eleven cleaning projects in previously disadvantaged areas during October, which not only created jobs, but also brought the cleanliness of these areas onto a new level. Contractors are bound to a written agreement in order to ensure proper performance and a clear understanding of what is expected from them.

The scope of work entails the sweeping of streets and sidewalks, cleaning of road reserves, public open spaces and play parks, open storm water channels, as well as ablution blocks (if any), the transport of refuse, the reporting of problems and educating others about cleanliness and the environment.

ANNUAL MUNICIPAL SHOWCASE

The municipality presented a week long exhibition called the Municipal Showcase during October 2005 to highlight its functions and achievements, but also to

educate residents and scholars on the workings of the municipality. Learners in the senior grades were transported to the exhibition and briefed on the municipality.

WARD COMMITTEES

Public participation in Overstrand's municipal decision-making got a boost with the election of ward committees in April. In total 2145 voters turned up for the election of ward committees and there was general satisfaction with the representativeness of the committees elected. Of the 100 ward committee members 60 represent organisations, 32 are female, 30 black and 20 coloured.

MAYORAL AWARDS

Stanford Conservation Trust was awarded the 2006 Mayoral Award for the Environment. Certificates of acknowledgement were also handed to the other finalists.

MAYORAL SOCIAL UPLIFTMENT PROJECT

An amount of R1 million was made available for the following projects:

- Care for infants: Provision of 300 blankets and necessities
- Early Childhood development programme: Upgrading of crèches and provision of educational equipment
- Health Care: Upgrading of Clinics and provision of equipment
- Safety and Security: Monetary contributions to the National Sea Rescue Institute (NSRI) and South African Police Services (SAPS)

JUNIOR TOWN COUNCIL

A special effort was made to engage the school going youth through the Junior Council, which is fully representative of all Overstrand Communities – demographically as well as geographically. Not only were opportunities created to inform the junior councillors about the municipality, but they also were granted an opportunity to give feedback on their projects to council.

The Enlighten Education Trust, an Overstrand based non-governmental organization, is facilitating the Junior Council as an educational project on behalf of the Overstrand Municipality.

CHAPTER 3

HUMAN RESOURCES AND ORGANISATIONAL MANAGEMENT

The Human Resources Section is rendering a supportive function to the Office of the Municipal Manager and the different directorates. The Manager: Human Resources is assisted by three Human Resource Practitioners specializing in the following fields:

- Personnel Administration
- Recruitment and Selection
- Employment Equity
- Training and Development (Budget of R600 000)
- Organizational Development (Job Descriptions for 836 permanent approved positions on the Organization Structure)
- Labour Relations including disciplinary hearings in accordance with Disciplinary Code
- Occupational Health and Safety

Staff is governed in terms of various legislative enactments e.g the Labour Relations Act, (Act 66 of 1995) the Basic Conditions of Employment Act, (Act 55 of 1998) the Systems Act as well as various collective agreements concluded between the recognized employer and employee parties.

All negotiations between the parties are conducted under the auspices of the South African Local Government Bargaining Council (SALGBC) the recognized sector institution for Local Government in South Africa. The Employer is represented by the South African Local Government Association (SALGA) and the employees by either IMATU or SAMWU, the recognized trade unions in this sector.

The following are some of the key outcomes in respect of this area:

3.1 TRAINING AND DEVELOPMENT

Overstrand Municipality endorses the need to combine skills challenges beyond legislative compliance by budgeting more than the 1% prescribed and also takes on the broader skills demands of the Integrated Development Plan (IDP) and economic development.

The Overstrand Municipality, like all other local authorities, must submit a Workplace Skills Plan to LGSETA in terms of the Skills Development Act, (Act 97 of 1998) and related legislation.

It is the role and function of the Skills Development Facilitator to gather, facilitate and analyse information in relation to the Workplace Skills Plans which will meet the needs of the organization, individual learners, the sector and national skills priorities.

In compiling the Skills Plan for 2005/2006 cognizance was taken of the essential need to link the skills requirements to the Municipality's IDP as well as its strategic priorities and its service delivery focus areas.

Training was effected in terms of the duly submitted skills plan and the major categories were as follows:

<u>Course</u>	<u>Total trained</u>
ABET	40
TECHNICAL/ELECTRICITY	12
PROJECT MANAGEMENT	16
DISCIPLINARY TRAINING	10
SKILLS DEVELOPMENT	2
PROTECTION SERVICES	2
COMPUTER	27
INTERNAL STUDY BURSARIES	12
COUNCILLORS	16
FIRST AID	20

3.2 HEALTH AND SAFETY COMPLIANCE

Legislative provisions regulate health and safety matters in the Local Government Sector. Initial steps were taken to ensure an effective Occupational Health and Safety support system in order to administer the relevant legislation.

3.3 LABOUR RELATIONS: COLLECTIVE BARGAINING

Parties to the SALGBC (SALGA, IMATU and SAMWU) concluded an Organizational Right Agreement in 2003. This was done to create an environment conducive to sound industrial relations in local government in South Africa

The following matters are some of those which are subject to collective bargaining at national level only:

- Remuneration
- Medical Aid
- Retirement Funds
- Hours of work
- Leave

In terms of the Organisational Rights Agreement a Local Labour Forum must be established to discuss labour matters of a local nature. After the election of the new council in April 2006 the Overstrand LLF resumed its monthly meetings under chairmanship of Mr M Hendricks, nominated by the unions. The position of chairperson rotates annually between the two parties for the employer and employees respectively.

3.4 ORGANISATIONAL RESTRUCTURING AND RECRUITMENT

The development of the organizational structure as well as placement of staff were finally completed in October 2004. Arising out of this completion an ongoing recruitment and selection process has been followed since then. The focus was firstly on internal staff in order to provide them with promotional opportunities based on their qualifications and/or experience in respect of acquired learning, as well as the fact that many of them already performed the function for a long time as temporary employees.

During this process it became apparent that certain skills are in short supply be it internal or external. Examples of this are: electricians, town planning, financial management and general technical skills i.e. water and sewerage, cleansing and roads. In some cases external recruitments were undertaken at great cost to the municipality in order to ensure that it could maintain delivery. The shortage of certain skills in the marketplace was an inhibiting factor.

Restructuring caused the organograms to be changed from time to time. By its nature an organization as diverse as a municipality has to constantly review its structure in order to ensure that it meets its service delivery objectives. Any changes to the organizational structure will be managed within the confines of the prevailing labour dispensation.

3.5 EMPLOYMENT EQUITY (EE)

During the restructuring process the implementation of EE principles was limited as a result of various collective agreements (i.e. Placement). In spite of this the municipality has made great strides in improving its employee profile at all levels in order to be more representative of the community it serves. Training of designated employees is also creating opportunities to acquire the necessary skills to enable them to function as key role players in the municipality.

The top management of the Municipality is fully compliant with employment equity standards. Consisting of the Municipal Manager and 4 Directors. It exists of one ethnic Black, two Coloured and two white persons. Due to the placement process white persons are over represented in the rest of the senior management and thus will be addressed when vacancies occur, subject to the competency of applicants. Please take note that in this paragraph top management refers to the Municipal Manager and Directors and senior management to the rest of the management cadre. For the purposes of the equity report attached hereto these definitions differ. Councillors are also forming part of the top management in terms of the prescribed reporting figures before the elections.

An interim EE policy has been finalized and cognizance of the demographics of the population is taken into account during the recruitment and selection processes.

3.6 INTEGRATION OF THE PUBLIC SECTOR

Movements have started at Central Government and SALGA towards creating a single public service. Many problems, legal and otherwise, are foreseen in this regard, depending on the manner in which this is handled by either collective bargaining or the Central Government.

Workforce Profile

Occupational Categories

Number of **employees** (including employees with disabilities) in each of the following **occupational categories**:

Note: A=Africans, C=Coloureds, I=Indians and W=Whites

Note: A – Africans, C – Coloureds, I – Indians and W – Whites

Occupational Categories											TOTAL
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W	W	Male	Female	
Legislators, senior officials and managers	3	6	-	2	4		4	33			52
Professionals	1	2	-	-	1	-	1	2			7
Technicians and associate professionals	1	5	-				4	20			30
Clerks	8	27	-	11	50		54	5			155
Service and sales workers	1	15	-	1	1		1	8			27
Skilled agricultural and fishery workers	-	4	-	-	-	-	-	1			5
Craft and related trades workers	5	12	-	1	-	-	-	12			30
Plant and machine operators and assemblers	35	53	-	-	-	-	-	11			99
Elementary occupations	179	145	-	5	15	-	1	5			350
TOTAL PERMANENT	233	269	-	20	71	-	65	97			755
Non – permanent employees	12	17	-	5	13	-	7	20			74
GRAND TOTAL	245	286	-	25	84	-	72	117			829

Extract from formal Department of Labour documentation

Occupational levels

Number of **employees** (including employees with disabilities) in each of the following **occupational levels**: Note:
A=Africans, C=Coloureds, I=Indians and W=Whites

Occupational Levels											TOTAL
	Male			Female				White Male	Foreign Nationals		
	A	C	I	A	C	I	W	W	Male	Female	
Top management	3	4	-	2	3	-	-	15	-	-	27
Senior management	-	2	-	-	1	-	4	18			25
Professionally qualified and experienced specialists and mid-management	2	4	-	-	1	-	2	17	-	-	26
Skilled technical and academically qualified workers, junior management, supervisors, foremen, and superintendents	3	17	-	4	5	-	16	27	-	-	72
Semi-skilled and discretionary decision making	48	97	-	8	46	-	42	15	-	-	256
Unskilled and defined decision making	177	145	-	6	15	-	1	5	-	-	349
TOTAL PERMANENT	233	269	-	20	71	-	65	97	-	-	755
Non – permanent employees	12	17	-	5	13	-	7	20	-	-	74
GRAND TOTAL	245	286	-	25	84	-	72	117	-	-	829

- Extract from formal Department of Labour documentation for the period 1 October 2005 until 30 September 2006
- Top management includes the legislators

CHAPTER 4

FUNCTIONAL AREA SERVICE DELIVERY REPORTING

FUNCTIONAL ANALYSIS

What follows is an analysis of the respective functional areas in relation to the constraints faced, main priorities and functional strategies. The functional areas are grouped under the relevant directorates.

4.1 OFFICE OF THE MUNICIPAL MANAGER

PERFORMANCE MANAGEMENT

A key outcome of this process was the acceptance by the Executive Mayor of the Service Delivery and Budget Implementation Plan (SDBIP) for 2005/2006 in terms of the MFMA in June 2005. This plan encompasses a functional business plan for each management unit as well as a capital budget implementation plan where applicable.

CORPORATE STRATEGY

In order to provide strategic direction to the service delivery efforts of the Municipality the following Corporate Strategy was adopted by Council as part of its IDP for the 2005/2006 financial year. This strategy was confirmed for the year under review.

Vision

To be the most desirable destination to visit, stay and do business.

Mission

To facilitate and sustain an environment for the development of a world-class tourist industry supported by environmentally sensitive development.

Strategic Priorities

- Promotion of tourism and economic development
- Provision and maintenance of municipal services
- Creation and maintenance of a safe and healthy environment
- Management and conservation of the natural environment
- Provision of democratic and accountable governance

REVISED IDP 2005/2006

We believe that before we can allocate our available resources, we must first understand the needs and desires of our communities and residents. By looking ahead and asking our public what they need, we establish a vision for what level of service we will provide, along with which resources will be necessary to provide them.

COMMUNICATION

Main priority:

Improve the public image of the Overstrand Municipality

Functional strategies:

- Empowerment of front line staff
- Facilitate formal and informal communication processes
- Formation of partnerships with stakeholders

The municipality published a newsletter, the Overstrand Bulletin, on five occasions during the year to inform residents about important municipal matters and the latest developments with regard to LED. There is an equal allocation of editorial space to all three official languages of the Western Cape, ensuring that provincial language policy is promoted. The major stories are published in all three languages, but photo's and community-specific matters are changed in the different language sections to provide greater variety and exposure to the municipality in the newsletter. A total of 32 000 newsletters per occasion is distributed with municipal accounts, while another 500 copies are also placed at all public desks, thus providing the municipality with a tool to promote its image to the public.

The municipality developed its own website during the year. The news section and the procurement section are updated continuously, while the rest of the content is revised annually.

The municipal area was serviced during this period by seven community newspapers and excellent liaison was maintained with them to ensure that the public is well-informed. Media briefings were conducted on a regular basis by the Executive Mayor and media releases were made on a regular basis.

The local and provincial media are monitored, especially the letter columns, where many complaints regarding service delivery are picked up. Where possible, incorrect perceptions are rectified (in many instances the editors give the

municipality the opportunity to respond immediately to letters). Clipping packs were compiled to keep councillors and senior management abreast of media coverage of municipal affairs.

Media releases and responses to the media were used to compile a quarterly report on municipal activities for the ward committee and public report back meetings.

Constraints:

Poor image of Overstrand municipality amongst some residents

GENDER

The general and supported assumption is that the Local Government sphere is best placed to address the needs of local communities. Unless a gender responsive approach is applied in service provision, developmental plans will not necessarily have a positive impact.

An Overstrand Gender Task Team has been established. A vision/mission and strategic objectives have been agreed upon.

The Gender Strategy should complement the other transformation initiatives in Local Government by consistently observing the following core issues:

- Respect for the human rights of individuals and communities
- A people centred approach
- Consideration for the needs of community groups
- Building capacity for effective participation and delivery

INTERNAL AUDIT SERVICES

The main function of this service is to provide an internal audit service to the Municipality in line with the statutory requirements contained within the MFMA.

The main priorities of this service include:

- Establishment of an internal audit unit
- Establishment of an audit committee
- Production of an annual risk based internal work plan
- Provision of ongoing advice to the accounting officer and audit committee

The sound management of a municipality's financial resources is essential for the sustained delivery of services. To ensure compliance with relevant norms and standards the Auditor-General's office conducts an annual audit of the municipality's finances. The outcomes of such audit are subject to public scrutiny to ensure transparency and accountability.

4.2 INFRASTRUCTURE AND PLANNING

ENVIRONMENTAL CONSERVATION

Sustainable environmental management

Functional strategies:

- Establishment and support of mechanisms for community involvement in environmental conservation

Main priority:

- Management of protected areas
- Annual evaluation to determine effectiveness of all functional processes
- Drafting/revision of environmental conservation policies

The Overstrand area is world renowned for its breathtaking natural beauty. Overstrand Municipality has made considerable gains with its joint ventures with other institutions to further its cause.

MARINES PROJECT

(Management Action for the Resources of the Inshore and Nearshore Environment)

Overstrand Municipality entered into an agreement with the National Department of Marine and Coastal Management (MCM) to combat the scourge of poaching in our area.

In terms of the above agreement funding was provided for law enforcement staff as well as equipment. This agreement expired on 31 March 2006 and was extended to 30 June 2006 when the project was taken over by MCM.

BABOON MANAGEMENT

During the year under review various negotiations for funding took place with Cape Nature and the Department of Environmental Affairs with regard to this project.

TOWN PLANNING

Main priority:

Ensure a safe, healthy and sustainable environment for inhabitants of Overstrand through proper town planning

Functional strategies:

- To effectively address the social needs and expectations of all sectors of the community
- To develop and sustain a strong local economic base which recognises the importance of tourism in the development of the Overstrand region as a whole
- To facilitate the development of a functional and diverse yet well integrated convenient economically efficient and comprehensive urban environment and region
- To promote a safe and efficient transport network
- To restore and conserve the character of the town
- To restore and conserve the natural and built environment
- To ensure that each town plays a responsible and distinctive role in the economic and social development of the Overstrand region

Planning principles:

In addition to the above, the following planning principles must be taken into account when any development is contemplated:

- Promote integration of built and non-built environments
- Promote compaction and densification
- Promote integration of uses and activities
- Promote continuity of urban development
- Promote environments that break the syndrome of vehicle dependence
- Promote collective places and spaces, as opposed to individual buildings
- Promote multi-functionality

The main focus of this section is ensuring the uniform implementation of the relevant Spatial Development Frameworks and Scheme Regulations as well as the Land Use Planning Ordinance (Ordinance 15 of 1985) (LUPO)

A highlight during this period was the completion of the Integrated Spatial Development Framework for the Overstrand. During this financial year the process for consultation regarding the uniform scheme regulations for the Overstrand area also started.

The following applications were received for the calendar years of 2005/06:

Type of Application	2006	2005
Departures	352	200
Subdivisions	137	49
Rezoning	91	62

Constraints:

- Lack of uniform town planning schemes
- Lack of planning GIS
- Limited staff capacity
- Low levels of law enforcement
- Sensitive environment
- Urban sprawl
- Inclusion of rural and farm areas in area of responsibility

ROADS INFRASTRUCTURE

Main priorities:

- Extension and maintenance of existing road infrastructure
- Promotion of public transport in conjunction with ODM and provincial government
- To promote a safe and efficient transport network

Functional strategies:

- Implement road surfacing programme
- Implement planned road maintenance program
- Develop and Implement traffic management plans
- Initiate and implement public and non-motorized transport projects
- Maintain and expand Pavement Management System

The provision of a functional roads and stormwater network is the main focus of this functional area. In respect of the extension and maintenance of the designated provincial roads (R43 and R44), we share dual authority with the Provincial Government as the designated roads authority.

All work undertaken within town boundaries on designated provincial roads, are funded as joint initiatives on a 80/20 basis (Province 80 and Overstrand 20). The

regulation of passenger transport services is a function of the ODM in terms of the Municipal Structures Act.

Constraints:

- High increase in vehicle traffic on local as well as Provincial roads
- High cost of road maintenance material
- Limited funds for preventive maintenance and resealing
- Limited funds for surfacing of gravel roads
- Inadequate capacity of road infrastructure resulting in traffic congestion along R43 Hermanus Area

WATER AND SEWERAGE SERVICES

This area renders an essential basic service to residents of the Overstrand. The Hermanus area is under severe water stress hence the need to not only manage the demand but also to conserve this scarce resource. A water conservation programme is in place in the Hermanus area.

The Overstrand Municipality was appointed as water services authority as from 1 July 2003. The result of this is that we have been authorised to perform the functions of supplying potable water as well as domestic waste water and sewerage disposal systems.

The Overstrand aims to be a leader in the Western Cape in the field of alternative water resource investigation. Studies and tests are being undertaken in respect of the following resources:

- Desalination

Studies have been done over the pass years to determine the potential to produce seawater by means of desalination. The requirements of the Department of Water Affairs and Forestry (DWAF) and the Department of Environmental Affairs Development & Planning (DEADP) have been taken into account in these studies.

- Re-use of effluent

The construction of an effluent pipeline from the Hermanus waste water treatment works has been planned with construction envisaged for September 2006.

- Groundwater

Studies have been undertaken since 2003 to determine the potential for the exploitation of groundwater in the Hermanus area, due to the water shortage in the area. The Gateway production borehole has been identified as a potential

borehole to supplement the existing water source (The De Bos Dam) with a yield of 1.5 mega litre/y. The construction of the civil works has commenced during June 2006.

Further to the above the following was done:

- Bulk water and sewerage services has been constructed for Westcliff
- Planning of infrastructure projects has been initiated for implementation during the 2007/2008 financial year.

During the year under review the main focus was to implement minimum civil engineering standards for the approval of infrastructure for developments.

The Overstrand Municipality also continued in the DWAF programme in providing information to guide the tracking, reviewing and improving of water quality. In particular, the system can be used for:

- Monthly review of legislative compliance
- Identification of areas requiring urgent attention thus allowing effective and efficient allocation of resources
- Quarterly summary review (trend analysis, effectiveness of remedial actions, etc)

BUILDING CONTROL

Main priority:

Control of all building works in the Overstrand

Functional Strategies:

- To receive and scrutinise all building plans
- To provide information relating to submission of building plans
- To provide reliable building statistics
- To inspect all building works
- To provide building control
- To respond to customer complaints
- To project manage civic buildings, capital projects and building maintenance projects

This division has three distinct functions i.e:

- ❖ The maintenance of existing Council facilities;
- ❖ The regulation of building activities;

❖ Awarding and monitoring of municipal capital projects.

The building construction industry in the Overstrand is a thriving business and can be viewed as an indicator of the strong economic growth the area has experienced over the past few years.

Comparisons of the approximate value of approved building plans are as follows:

1/07/2000 - 30/06/2001	R255 373 460
1/07/2001 - 30/06/2002	R324 009 730
1/07/2002 - 30/06/2003	R562 019 786
1/07/2003 - 30/06/2004	R644 177 521
1/07/2004 - 30/06/2005	R868 385 132
1/07/2005 – 30/06/2006	R996 193 489

The average period of approval for a building plan submitted is fourteen days. Approximately 180 applications are submitted on a monthly basis. During this year systems were integrated and law enforcement training programmes for the building inspectors was finalised.

Constraints:

- High levels of vandalism
- Limited maintenance funding
- Limited office accommodation facilities for staff

4.3 COMMUNITY SERVICES

PROTECTION SERVICES

FIRE FIGHTING AND DISASTER MANAGEMENT

Main priority:

Provision of an adequate Fire Protection Service and Disaster Management System

Functional strategies:

- Improve fire-fighting and rescue capabilities
- Improve personal safety of fire-fighters
- Improve public knowledge of fire prevention
- Improve fire safety standards of premises with fire risks
- Maintain and update the Disaster Management Plan

The fire-fighting system utilised by the Overstrand is one that is dependent on volunteers/reservists. It consists of a small component of full time council officials and a large component of volunteer community members and municipal officials.

During 2005/06 this service responded to a total of 503 incidents. The main categories were –

	2005/06	2004/05
Veld and bush fires	209	200
Residential fires	27	24
Informal dwellings	51	44
Commercial fires	12	8
Vehicle fires	14	14
Refuse fires	27	22
MVA	34	70
Rescue	8	8
Other fires	9	10
Veld fires large	46	25
Special Services	52	56
Liquid & Gas fires	3	3
Hazmat	11	7

Additional equipment was purchased and existing equipment was upgraded during this financial year. Ongoing training in first aid, fire fighting and rescue methods were given to staff in order to improve their skill and safety awareness levels.

A limited fire prevention service in respect of permit applications and inspections is offered. This municipality enjoys a good working relationship with the ODM with which we have concluded a mutual assistance agreement. This division has also compiled an integrated Disaster Management Plan taking into account the uniqueness of each area. A disaster management framework for the area is being compiled in conjunction with the ODM.

Constraints:

- Primarily based on a volunteer system
- Fire prevention and public education services limited
- Limited safety and fire fighting equipment
- Basic training levels

TRAFFIC AND LAW ENFORCEMENT SERVICES

Main priority:

To plan and execute a sustainable programme of road traffic and by-law enforcement

Functional strategies:

- Implementation of Road Traffic Act (Act 29 of 1989) and Municipal regulations
- Improve public awareness of road safety
- Ensure high payment levels
- Management of Traffic and Law Enforcement resources
- Provision of effective card licence process
- Management of fire services

Traffic Services

This section's main responsibility is the enforcement of the various provisions of Road Traffic Legislation. Other services rendered include motor vehicle licensing, vehicle roadworthy testing as well as learner and driver testing.

Along with the Provincial Road Traffic Authorities we exercise joint responsibility for law enforcement and road safety initiatives in our area and the level of co-operation amongst the staff is excellent.

During the period 1 July 2005 – 30 June 2006 the following statistics were recorded:

	2005/06	2004/05	2003/04
Traffic offences	28 888	26 050	23 222
Vehicle licences	38 229	44 300	35 282
Roadworthy tests	3 437	3 500	3 492
Learners licences	2 026	1 300	1 340
Driver licences	1 112	800	718
Card licence conversions	4 480	4 500	4 769

The traffic centre in Hermanus which houses a Grade "A" testing centre offers residents a "one stop" shop service where one can obtain a learner driver's licence, a driver's licence, roadworthy certificate and payment of traffic offences.

Law Enforcement

The establishment of this unit has improved capacity to enforce the relevant municipal and national legislation. Our traffic and law enforcement staff enjoys a good working relationship with the SAPS and other law enforcement agencies.

The main focus of this section is to enforce municipal by-laws and regulations and they deal with all complaints from uncontrolled dogs, illegal dumping, hawker control and general anti-social behaviour.

They attended to 3 168 complaints for the period 2005/2006

Constraints:

- Limited staffing levels
- Disregard for road traffic legislation and municipal by-laws and regulations

PRIMARY HEALTH CARE SERVICES

Operational control over the primary health care function as performed by Overstrand Municipality has been taken over by Provincial Administration Western Cape (PAWC) in April 2006. There is still a working relationship between the Municipality and PAWC with regard to the utilisation of municipal infrastructure and payment of municipal staff and operational costs not formally taken over.

ELECTRICITY SERVICES

Main priority:

To supply reliable, affordable and cost-effective electricity

Functional strategies:

- Measurement of provision of services
- Installation of monitoring equipment
- Inspection and repair of equipment
- Compilation and execution of a master plan for electricity
- Installation of new equipment

The Overstrand Municipality along with ESKOM, are joint suppliers of this service. The rapid development of technology in the electrical field has given rise to an increased demand by consumers for additional capacity to provide for operation of this technology.

The electricity industry is in the process of undergoing a radical transformation. It is intended to change the manner in which electricity is currently supplied and to create Regional Electricity Distribution Suppliers (REDS). The services currently being rendered by Municipalities will be taken over by these REDS. Negotiations in this regard are continuing.

During the year, the key focus of this service area was to comply with the relevant SABS codes (047 and 048) governing the quality of service as well as quality of supply. Various upgrades and or extensions of the existing infrastructure were undertaken within the limit of available resources.

During the year under review a pilot project was launched to install streetlighting in Sandbaai. The Local Labour Promotion Project (LLPP) concept was used whereby workers had to dig trenches, lay cables and plant poles.

The project was a major success and it was decided to manage streetlighting projects in forthcoming financial years in the same manner.

Spin-offs of the project included provision of work as well as basic skills impartation in the field of cable laying, planting of streetlight poles, wiring and connection of luminaries.

Constraints:

- Backlog in maintenance of existing infrastructure
- Deterioration of networks in coastal areas
- Risk of non-compliance with distribution license conditions
- Rapid development placing enormous strain on existing infrastructure

WASTE MANAGEMENT SERVICES***Main priorities:***

Refuse removal, recycling and disposal on landfill site

Functional strategies:

- Develop Integrated Waste Management Strategy
- Implement bulk service planning
- Solid Waste project implementation
- Ensure permit compliance
- Ensure waste minimisation

The service is entrusted with the removal and disposal of refuse be it domestic, business or industrial. The management of dump sites and refuse transfer stations, in terms of the relevant DWAF permit requirements is a key activity.

A total amount of 27 000 tons domestic waste was produced whilst the total waste recycled (excluding schools, private individuals) was 2500 tons. The percentage recycled (by volume) was 14% and the total bushwaste chipped was 1450 tons

HOW RECYCLING BENEFITS ALL

- R75 000/yr is saved on transport cost to landfill site
- R112 00/yr is saved on disposal cost
- 143 less haulage trips (90m³ per load) per year to landfill site
- 34 jobs created as a direct result of recycling projects
- Longer use of costly landfill site

ACHIEVEMENT

- Recycling at source project has been extended to Kleinmond area
- Started to compile a new By-Law for Waste Management in Overstrand.
- Overstrand was awarded the first runner-up (Provincial) in the Cleanest Town Competition (2005/2006)

The main categories of recycled material were as follows:

	2005/06	2004/05
o Paper -	247 tons	192 tons
o Glass -	435 tons	263 tons
o Tins -	49 tons	98 tons

The amount of waste disposed of increases substantially during the holiday season as a result of the influx of visitors.

This division is also actively involved in the Coast Care programme of the Department of Environmental Affairs and Tourism (DEAT) as well as the Western Cape Clean up Campaign (WECCO) run by the Provincial Government.

Constraints:

- Gansbaai and Stanford disposal facilities inadequate
- Development of alternative mechanisms/conventional methods
- Development of rehabilitation sites

RECREATIONAL AMENITIES

Main priority:

Management of sport and recreation, caravan parks, beaches, parks and commonages

Functional strategies:

- Maintain parks and open spaces in the Overstrand
- Manage caravan parks
- Maintain clean and safe beaches
- Maintain the umbrella sports body established for the Overstrand
- Maintain sportfields
- Investigate alternative management methods for caravan parks

The functional areas falling under this heading include beaches, play parks, sportsfields as well as caravan parks. As a popular holiday destination these facilities are well utilized over holiday periods.

Constraints:

- High sports field maintenance costs
- Some caravan parks operating at a loss
- Vandalism of recreational facilities

HOUSING AND SOCIAL DEVELOPMENT***Main priority:***

To facilitate and maintain sustainable low cost housing development in the Overstrand

Functional strategies:

- Development of an integrated plan and housing policy
- Management of informal settlements via an electronic data base
- Management of housing capital projects
- Management of approved 5 year housing plan
- Applications to Province for housing projects in view of completed land audit

The main activities of this section are as follows:

- Administration of existing housing schemes;
- Administration of corporate housing;
- Planning for the development of subsidized housing projects;
- Management of informal housing areas; and
- Creating of social housing development opportunities

The Overstrand Municipality is home to approximately 10 informal settlement areas, the largest one being in Zwelihle. A backlog of approximately 10 000 formal units exists in the Overstrand area.

As part of its management plan in respect of informal housing areas, the municipality has developed a unique method of controlling this activity. All the inhabitants in this area are captured in a central data base which makes management thereof easier. This data base is updated on a regular basis to stay abreast of any changes.

The highlight for this review year includes:

- Commencement of 182 low cost houses in Hawston;
- Conditional approval for 400 housing units in Stanford;
- Comprehensive informal settlement management plan implemented;
- Gansbaai 350 housing project completed in this financial year

- Conditional approval for an integrated sustainable housing development in Kleinmond

Constraints

- Growing backlog of housing units
- Growing informal housing
- Limited basic services in informal settlements
- Limited availability of suitable land for housing

LIBRARY SERVICES

The Overstrand Municipality maintains eight libraries throughout its area starting from Bettys Bay through to Gansbaai.

Libraries have a key role to play in raising the literacy levels of the members of the community which it serves. It also serves as a point of reference for students and members of the public wishing to undertake academic research.

During this period the new library that was erected in Hermanus as part of the municipality's Corporate Head Office became fully functional. The Hawston library also houses a Library Business Corner (LBC) as part of the Provincial Government's initiative to empower local communities to acquire basic business skills.

The book circulation figures for the 2005/2006 calendar year are reflected below:

	2005/06	2004/05
▪ Bettys Bay	14 768	14 487
▪ Kleinmond	141 387	157 643
▪ Hawston	52 997	54 428
▪ Mount Pleasant	49 208	49 193
▪ Zwelihle	36 085	51 681
▪ Hermanus	272 661	242 138
▪ Stanford	24 257	22 124
▪ Gansbaai	126 741	143 158

This function is listed as a provincial function in the Constitution of South Africa, 1996 and constant calls are made that this function should be fully funded by Government, as is the case with primary health care.

4.4 LOCAL ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT

Main priority:

Promotion of economic development initiatives, tourism, ensure sustainable job creation and poverty reduction with a shared growth that integrates and connects the municipality, its people and its natural resources.

Current reality:

- Traditionally regarded as a preferred eco-tourism destination
- Tourism is currently on of the largest sectors
- Fledging aquaculture farming industry
- Significant growth in property development (figure of R996 193 489 as indicated by approved building plans)
- Growing economy of 3.2% per annum
- High levels of entrepreneurship spirit
- Fastest growing sectors contributing largely to the GGP of the area

Functional strategies:

- Co-operation with other organs of state to promote economic development
- Adoption of economically friendly policies
- Providing needed support to local entrepreneurs and growing the second economy
- Empowering local communities to become self employed
- Establishment of network with funding agencies
- Compilation of a local services supplier data base for the Overstrand Area
- Promotion of local employment

The promotion and stimulation of sound local economic development practices are essential to reduce the levels of unemployment and poverty in the area. The main focus for this area for the next year will be the adoption of a Local Economic Development Strategy for the Overstrand in conjunction with Provincial SMME initiatives for the area. The municipality, with funding from the Industrial Development Corporation (IDC), is committed to establish a development agency which acts as a vehicle to stimulate economic growth and development in the area.

The promotion of local labour which includes the Local Labour Promotion Project (LLPP) which is referred to elsewhere in this report, is being enhanced in this directorate. All labour promotion projects like PROTEA is now being dealt with by the Manager: LED.

Constraints:

- Lack of baseline information
- Lack of reliable readily accessible data
- Limited institutional capacity in respect of LED
- Situated in an area of largely rural character with almost 70% of households living below the breadline
- High unemployment and illiteracy rates
- Informal employment trends

TOURISM***Main priority:***

To grow the market to increase the length of time spent in the area, to expand the range of tourism products available and finally to increase the number and types of visitors.

Functional strategies:

- Improvement and enhancement of current tourism initiatives in the Overstrand area
- Improvement of marketing initiatives
- Establish close links with regional tourism bodies
- Compilation of accurate accessible tourism database
- Promote broader community participation in tourism initiatives
- Integration of local tourism bureaus for an Overstrand wide approach to marketing
- Participation in annual tourism indaba and other relevant events

Overstrand is renowned for its natural beauty. Protecting and rehabilitating the natural resource heritage of the area is key to the continued economic success of tourism.

Currently there are four tourism bureaus within the Municipal area i.e. Hangklip-Kleinmond, Hermanus, Stanford as well as Gansbaai. An initiative is underway to set up a destination marketing organisation to market the area.

Council provided financial and in-kind support to the respective tourism bureaus as well as festivals during the review period.

POVERTY RELIEF (PROTEA)

(Poverty Relief through the Organised Treatment and Eradication of Aliens)

One of the specific projects managed by this division was the PROTEA project. It is now managed by the Manager: Economic Development.

This project, which is funded by the Department of Water Affairs and Forestry (DWAF) is an empowerment initiative whereby members of the local community who have been assisted to obtain the necessary expertise and equipment successfully compete in providing an alien vegetation clearing service through a tender process. This project has seen the creation of approximately 116 sustainable employment opportunities for the financial year under review.

Constraints:

- Disjointed marketing initiatives
- Limited linkages with the rest of Overberg region
- Participation of local communities through sustainable enterprises

4.5 FINANCE

EXPENDITURE

The main purpose of this service area is the provision of professional financial services to management and council in respect of the capital and operational budget, procurement and payroll administration.

The main priorities of this service include:

- Co-ordination of the annual operational budget process
- Municipal procurement
- Staff payroll administration
- Income data management

INCOME MANAGEMENT

The main function of this service is the levying of service charges and rates and the collection of all income due to the municipality.

The main priorities of this service include:

- Administration of the council's indigent policy
- Monthly billing of debtors
- Effective debt administration
- Co-ordinating annual and general property valuations
- Compilation / revision of tariff policies and structures
- Service consumption management
- Monitoring income levels

FINANCIAL SERVICES MANAGEMENT

The main function of this service is the provision of professional financial services to council and external bodies in respect of year-end and in-year financial reporting, management, the capital budget and the implementation of the MFMA.

The main priorities of this service include:

- Co-ordination of the annual capital budget process
- Co-ordination of the annual close down of accounts
- Completion of financial statements
- Joint responsibility for compilation of the quarterly and annual SDBIP's
- Joint responsibility for mid-year performance/budget assessment
- Provision of monthly budget reports to Executive Mayor
- Project management for the MFMA project
- Financial management support and control

THE MFMA CHANGE PROJECT – FOCUS FOR 2005/06

- Establishing a new set of financial policies, regulations and delegations in line with the MFMA requirements
- The production of a manual of financial procedures to ensure the new financial policies, regulations, and delegations are understood and followed.
- Introducing a new quarterly financial and performance monitoring report and a formal mid-year financial and performance assessment report as required by the MFMA.
- Meeting the new (earlier) timetable for the production of the financial statements along with the changes arising from the (anticipated) introduction of the new accounting standards for municipalities.
- Meeting the new information and timetabling requirements in the MFMA for the Annual Report.
- Reviewing the 2005/06 IDP/Budget process and introducing any improvements. Also improving longer term financial planning skills.
- Preparing an organisation-wide financial training and implementation plan and starting to focus more on financial capacity building, including the formal Financial Management qualifications that will be required for certain officials under the MFMA.
- In addition, although not strictly part of the MFMA Change Project, the tariff structure will be reviewed for the 2006/07 IDP/Budget process and the new data collection unit in the Income Department will start to gather and monitor income collection statistics on a monthly basis.

Overstand as the only high-capacity municipality in the Overberg area will start to formally share MFMA 'lessons learnt' and give advice and documentation to the other Overberg municipalities as part of its commitment to co-operative governance.

In the last half of the year under review the functions were restructured as set out earlier with Internal Audit and IT being put under control of the Head Management Services in the Office of the Municipal Manager.

CHAPTER 5

PERFORMANCE AUDIT

5.1 REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON FACTUAL FINDINGS ON PERFORMANCE MEASUREMENT AT OVERSTRAND MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

1. ASSIGNMENT

The compilation, presentation and publishing of performance measurements as included on pages to of this annual report and the implementation, management and internal control of supporting systems are the responsibility of the accounting officer.

As required by section 45(b) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) my responsibility is to provide an assessment of the controls implemented by the accounting officer to develop and manage the municipality's performance management system, my role is not to assess or comment on the municipality's actual performance.

2. NATURE AND SCOPE

I have performed the procedures agreed upon and described below regarding the performance measurement system of Overstrand Municipality. The assignment was undertaken in accordance with the International Standard on Related Services (ISRS 4400) applicable to agreed-upon procedure engagements.

The procedures were performed solely to evaluate the controls implemented and managed by the accounting officer regarding the municipality's performance measurement system against the criteria set out in:

- chapter 6 of the Municipal Systems Act, 2000;
- the Local Government: Municipal Planning and Performance Management Regulations, 2001 (No. R.796).

The procedures performed during our assignment were based on the high-level overview checklist completed by the accounting officer and included a review of the following aspects:

- Development of an integrated development plan
- Development of a performance management system
- Development and implementation of key performance indicators
- Setting of targets for key performance indicators
- Actual service delivery process
- Internal monitoring of performance measurements
- Internal control of the performance management system
- Performance measurement and reporting
- Revision of strategies and objectives

3. FACTUAL FINDINGS

I report my findings below:

3.1 Development of an integrated development plan

The municipality adopted a revised integrated development plan as prescribed by the Municipal Systems Act, 2000, with a system of participatory governance.

3.2 Development of a performance management system

As required by section 39 of the Municipal Systems Act, 2000 the municipality developed and implemented a performance management system, which was adopted by the council.

3.3 Development and implementation of key performance indicators

Key performance indicators in accordance with the municipality's integrated development plan were set as required by section 41(1)(a) of the Municipal Systems Act, 2000. The review of all the municipality's key performance indicators was also performed in accordance with its performance review process which is included in the performance management system, as required by regulation 13(4).

3.4 Setting targets for key performance indicators

Performance targets were set in accordance with the municipality's integrated development plan as required by section 41(1)(b) of the Municipal Systems Act, 2000. With the revision of the integrated development plan, key performance indicators were also reviewed, as required by regulation 11.

As required by section 46(1)(a) of the Municipal Systems Act, 2000, the annual report of the 2004-05 financial year included the performance targets for the 2005-06 financial year.

3.5 Actual service delivery process

The municipality developed a framework in terms of its performance management system to track the performance of service providers and certain staff members and to report in accordance with the lines of accountability and the intervals for reporting, as required in the framework. The performance measurement of staff was implemented at the levels of municipal manager, director and manager.

3.6 Internal monitoring of performance measurement

The municipality adopted a formally documented process/framework to assist with the tracking of performance and continuous monitoring of actual and targeted results of its staff and service providers.

3.7 Internal control of the performance measurement system

In terms of section 45(a) of the Municipal Systems Act, 2000 the results of performance measurements must be audited as part of the municipality's internal auditing processes.

Although the municipality established an internal audit function on 1 October 2003, an approved audit plan was not in place for the 2005-06 financial year and consequently no structured approach to the internal auditing of performance measurements could be determined.

An audit committee was established on 1 November 2005 which would also perform the task of a performance audit committee. The audit committee could, however, not perform all its relevant functions because of the shortcomings in the internal audit department.

3.8 Performance measurement and reporting

During the year under review the municipality measured its own performance against a performance measurement framework and performance indicators as required by section 41(1)(c) of the Municipal Systems Act, 2000. Performance reviews of certain service providers were also performed during the year under review.

3.9 Revision of strategies and objectives

The municipality, as part of its performance management system, established a cycle and processes of performance review and improvement, whereby the municipality's strategies and objectives are revised in accordance with the review of the performance of the municipality.

4. STATEMENT

Because the above procedures constitute neither an audit nor a review made in accordance with International Standards on Auditing or International Standards on Review Engagements, I do not express any assurance on the performance measurements as at 30 June 2006.

Had I performed additional procedures or an audit or review of the performance measurement in accordance with International Standards on Auditing or International Standards on Review Engagements, other matters might have come to my attention that would have been reported to you.

This report relates only to the purpose set forth in the first paragraph of this report and does not extend to the financial statements of Overstrand Municipality, taken as a whole

5. APPRECIATION

The assistance rendered by the staff of Overstrand Municipality during the assignment is sincerely appreciated.



L. KLUE-KNIPE for Auditor-General

Cape Town

30 November 2006



A U D I T O R - G E N E R A L

5.2 Comments of the Accounting Officer regarding the Auditor-General's Audit on Performance

The Accounting Officer of the Municipality is as prescribed by law the Municipal Manager.

Section 20(2) of the Public Audit Act (Act 25 of 2004), reads as follows:

"20(2) An audit report must reflect such opinions and statements as may be required by any legislation applicable to the auditee which is the subject of the audit, but must reflect at least an opinion or conclusion on-

(c) the reported information relating to the performance of the auditee against predetermined objectives."

(my underlining)

Section 45 of the Systems Act, referred to in the second paragraph of the report of the Auditor-General reads as follows:

"45 The results of performance measurements in terms of Section 41(1)(c) must be audited –

a) As part of the Municipality's internal auditing process; and

b) Annually by the Auditor-General"

(my underlining)

Section 41(1) of the Systems Act, referred to in Section 45 above, reads as follows:

"41 (1) A municipality must in terms of the Performance Management System and in accordance of any regulations and guidelines that may be prescribed –

- (a) set appropriate key performance indicators as a yardstick for measuring performance, including outcomes and impact, with regard to the municipality's development priorities and objectives set out in its integrated development plan;
- (b) set measurable performance targets with regard to each of those development priorities and objectives;
- (c) with regard to each of those development priorities and objectives and against the key performance indicators and targets set in terms of paragraphs (a) and (b)—
 - (i) monitor performance; and
 - (ii) measure and review performance at least once per year;"

In Notice 1512 of 2006 published on 27 October 2006 in terms of which our financial statements were audited, it is confirmed that such an audit will be undertaken although reference is wrongly made to section 46 instead of 45.

The requirement set out in section 41 was met by the Administration in compiling a report on the Performance in terms of the approved Service Delivery and Budget Implementation Plan (SDBIP).

This report will be submitted to the Audit Committee and that Committee's comments will be submitted to Council for consideration by Council together with all other comments at the Council meeting in April 2007.

In terms of the above quoted legislation it is clear that the results of the report in terms of section 41 (1) must be audited by the Auditor-General. I therefore differ, with respect, with the remark by the Auditor-General in the second paragraph under point 1 of the report where it is stated that his responsibility "is to provide an assessment of the controls implemented by the Accounting Officer to develop and manage the Municipality's Performance Management System, my role is not to assess or comment on the Municipality's actual performance".

It is in fact the legal duty of the Auditor-General to audit the results and therefore the actual performance. The paragraph under point 1 is therefore misleading. The role was explained clearly in person by Ms L Klue-Knipe, the Audit Manager of the Auditor-General's audit team at the Overstrand, during the consideration of last year's audit report. She informed the meeting that the Auditor-General has decided not to audit the results at this stage of its audits of Local Authorities countrywide. This will follow in due course when municipalities have progressed with regard to performance management systems. The Auditor-General's report must be read against this background as only the controls implemented by the Accounting Officer were assessed in the audit at this stage, as is the case with municipalities countrywide.

The assessment of the controls was positive on all aspects except for paragraph 3.7, which refers to internal audit of the results being a requirement. This was not done due to the fact of shortcomings in the internal audit department, which is admitted, but due to the fact that the understanding of the Accounting Officer was that this will be done after the receipt of the Auditor-General's audit of the results, which did not happen due to the non-compliance by the Auditor-General of its statutory duty. This will now be done and be submitted to the Audit Committee whereafter the Committee's comments will be submitted to Council for final consideration of the Annual Report.

In future the submission to the Audit Committee and internal audit of the results will be done before the audit report on performance is finalized by the Auditor-General. Finally, it must be stated that internal audit was done on the results, albeit not by an internal audit section but by the Strategic Services section in the Office of the Municipal Manager before submission of the regular reports to Council.

CHAPTER 6

ANNUAL FINANCIAL STATEMENTS

The annual financial statements of the Overstrand Municipality are attached hereto. This was submitted to the Auditor-General on 31 August 2006 as required by Section 126(1)(a) of the MEFA.

**OVERSTRAND
MUNICIPALITY**

**ANNUAL
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
30 JUNE 2006**

I am responsible for the preparation of these annual financial statements, which are set out on pages 1 to 39, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 25 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

Kochumer

31-Aug 2006

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6.2 **Report of the Auditor-General giving reasons for the delay in submitting the Audit Report prescribed by Section 126(4) of the MFMA**

AUDITOR - GENERAL

20 December 2006

The Speaker
Overstrand Municipality
PO Box 20
HERMANUS
7200



5/15/11
Mayor
Speaker
mm
Dirk

Dear Sir

REPORT IN TERMS OF SECTION 126(4) OF THE MUNICIPAL FINANCE MANAGEMENT ACT, 2003 (ACT NO. 56 OF 2003): REASONS FOR THE DELAY IN COMPLETING THE AUDIT OF THE OVERSTRAND MUNICIPALITY FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

In terms of section 126(1)(a) of the Municipal Finance Management Act, 2003 (Act No. 56 Of 2003), (MFMA) the Accounting Officer of the Municipality must, within two months after the end of the financial year to which those statements relate, submit the statements to the Auditor-general for auditing.

In terms of section 126(3) (b), of the MFMA the Auditor-General must submit an audit report on those statements to the Accounting Officer of the municipality or entity within three months of receipt of the statements.

Furthermore, in terms of section 126(4) of the MFMA, if the Auditor-General is unable to complete an audit within three months of receiving the financial statements from an accounting officer, the Auditor-General must promptly submit a report outlining the reasons for the delay to the relevant municipality and to the relevant provincial Legislator and Parliament.

Although the municipality had complied with the requirements of the MFMA and submitted its annual financial statements on 31 August 2006, I was unable to issue an audit report within three months from that date. The attached report provides the reasons for the delay.

The audit report was, however, issued on 8 December 2006.

Yours faithfully


L. K. KNIPE
for AUDITOR-GENERAL


SPECIAL REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL OF THE OVERSTRAND MUNICIPALITY ON THE SUBMISSION OF THE AUDIT REPORT FOR THE FINANCIAL YEAR ENDED 30 JUNE 2006

In terms of section 126(4) of the Local Government: Municipal Finance Management Act 2003, (Act No. 56 of 2003) I must promptly submit a report to the Municipality, Provincial Legislator and Parliament outlining the reasons for the delay if I am unable to complete my audit within three months of receiving the financial statements from the accounting officer.

The table below summarises the key information relating to the entity under the responsibility of the council.

Entity	Financial statements receipt date	Date audit report issued	Auditor-General compliance to section 126(4)	Reference
Overstrand Municipality	31 August 2006	8 December 2006	No	See annexure

I trust this report will be of value to the Council and if you have any queries please do not hesitate to contact my office.


L. KLUE-KNIPE for Auditor-General
 CAPE TOWN

ANNEXURE

REASONS FOR DELAY

The original set of financial statements of Overstrand Municipality for the 2005-06 financial year was received for audit purposes on 31 August 2006.

Due to the following reasons I was not in a position to conclude the audit before 30 November 2006 (three months after receipt of the financial statements), as required in terms of section 126(3) of the MFMA :

- Uncertainties existed with regard to guidance issued by the National Treasury in October 2006 on the implementation of the GRAP accounting standards, and the resultant implementation of SA GAAP accounting standards, which hampered the process and required a number of changes to the financial statements.
- In the interest of improving accountability, specific measures were implemented by the Auditor-General to ensure consistency in the manner in which material audit findings are reported, as well as the identification of the root causes of audit findings.

The final audit report was issued on 8 December 2006, after consultation with the Municipality.

Comments by the Municipal Manager

Due to the late receipt of the Audit Report when Council was already in recess, the Annual Report could not be tabled by the end of January as required by law. This is being done at the first opportunity of a Council meeting, which is 28 February 2007. The report on the reasons for the delay was received on 22 December 2006 by the Municipality. The final audit reports were received on 18 December 2006 by the Municipality under cover of a letter dated 11 December 2006.

**REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE
FINANCIAL STATEMENTS OF THE OVERSTRAND MUNICIPALITY
FOR THE YEAR ENDED 30 JUNE 2006**

6.3

1. AUDIT ASSIGNMENT

The financial statements as set out on pages 1 to 39, for the year ended 30 June 2006, have been audited in terms of section 188 of the Constitution of the Republic of South Africa, 1996, read with sections 4 and 20 of the Public Audit Act, 2004 (Act No. 25 of 2004) and section 126(3) of the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA). These financial statements are the responsibility of the accounting officer. My responsibility is to express an opinion on these financial statements, based on the audit.

2. SCOPE

The audit was conducted in accordance with the International Standards on Auditing read with *General Notice 1512 of 2006*, issued in *Government Gazette* no. 29326 of 27 October 2006. Those standards require that I plan and perform the audit to obtain reasonable assurance that the financial statements are free of material misstatement.

An audit includes:

- examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements
- assessing the accounting principles used and significant estimates made by management
- evaluating the overall financial statement presentation.

I believe that the audit provides a reasonable basis for my opinion.

3. BASIS OF ACCOUNTING

The municipality is required to prepare financial statements on the basis of accounting determined by the National Treasury, as described in the addendum to this report.

4. QUALIFICATION

4.1 Compliance with accounting standards and statements

The National Treasury informed all high-capacity municipalities that compliance with Generally Recognised Accounting Practice (GRAP) – GRAP 3: *Accounting policies, changes in accounting estimates and errors* – necessitated that the provisions of paragraphs 7, 11 and 12 of GRAP 3 be applied to material transactions, balances and/or events falling outside the scope of the specified standards. It was further communicated by the National Treasury that, in addition to the effective standards of GRAP and Generally Accepted Municipal Accounting Practice (GAMAP), municipalities seeking guidance in determining appropriate accounting policies and

disclosure, would result in municipalities applying South African Statements of Generally Accepted Accounting Practice (SA GAAP) only.

As the municipal accounting systems were not set up in a manner to accommodate compliance, the following instances of non-compliance with these standards and statements were identified:

- (a) *Property, plant and equipment (PPE)*: Evidence could not be obtained to confirm whether:
 - (i) the cost of PPE included the estimated cost of dismantling and removing assets and restoring the site, as far as a provision had been recognised for these costs;
 - (ii) useful lives of items of PPE were reviewed periodically and adjusted if the expected useful life had changed; and
 - (iii) at each reporting date an assessment was performed to determine whether there was any indication that an asset might be impaired, and if so, whether the asset had been tested for impairment in terms of GAMAP 17: *Property, plant and equipment* and IAS 36 (AC 128): *Impairment of assets*.

As a result of the findings contained in paragraph 4.4 of the audit report relating to the independent physical verification of assets, I was unable to assess the impact of this non-compliance on the financial statements.

- (b) *Financial instruments*: Financial assets were not classified into one of the required four categories, as required by IAS 39 (AC 133): *Financial instruments: Recognition and measurement*. Furthermore, the impairment provision (provision for bad debt) was not assessed separately for each individual financial asset or for groups of financial assets with similar credit risks. Included in the provision for bad debts totalling R16 028 455 is a provision of R2 246 376 for industrial and commercial debtors of which the recoverability is considered less doubtful than that of individuals. The possibility therefore exists that the provision for doubtful debts is overstated and debtors understated. The financial statements also did not appropriately disclose the municipality's risk management policies and exposure to credit risk as required by IFRS 7 (AC 133): *Financial instruments: Disclosure*.
- (c) *Inventories*: Water stock was not accounted for as inventory as required by GAMAP 12: *Inventories*, resulting in the overstatement of expenditure and the understatement of inventory at year-end. Furthermore, bringing water stock into the financial statements for the first time during the 2005-06 financial year should have been dealt with as a prior period error and would have to be corrected retrospectively by adjusting the opening accumulated surplus/deficit for the earliest prior period presented in which the error occurred and adjusting the comparative amounts for each prior period presented in which the error occurred.
- (d) *Provisions*: Provisions were not discounted as required by GAMAP 19: *Provisions, contingent liabilities and contingent assets*, should the effect of time value of money be material. The financial impact of this could not be quantified due to the non-submission of evidence to support the provisions, as reported in paragraph 4.5 of the audit report. Furthermore, a reconciliation

between the carrying amount at the beginning and end of the financial year was not disclosed for each class of provision to reflect additional provisions made, amounts utilised, unused amounts reversed and increases in the discounted amount arising from the passage of time.

- (e) *Revenue:* Revenue, specifically relating to property rates and service charges, was not recognised only if it was probable that future economic benefits would flow to the entity and these benefits could be measured reliably, resulting in the overstatement of revenue. Although the rand value of the overstatement of revenue could not be quantified, the municipality did provide for R16 028 455 as bad debts, which casts doubt over the probability that economic benefits would flow to the entity in this regard. Furthermore, the accounting policies for revenue were not drawn up in accordance with GAMAP 9: *Revenue*.
- (f) *Government grants:* Assets with a total cost of R2 616 313 were purchased during the 2005-06 financial year with funding from government grants. These government grants, which related to the acquisition of assets were not recognised either as a reduction in the cost of the asset or as deferred income that was amortised as the related asset was depreciated or amortised, as required by IAS 20 (AC 134): *Accounting for government grants and disclosure of government assistance*.
- (g) *Employee benefits:* Although post-employment benefit plans were correctly classified as either defined contribution plans or defined benefit plans, the municipality did not disclose its accounting policies for post-employment benefit plans in accordance with IAS 19 (AC 116): *Employee benefits*, which requires that:
 - (i) a liability was recognised for the municipality's obligation under a defined benefit plan with the liability and expense measured actuarially and the fair value of any defined benefit plan assets offset against the liability;
 - (ii) actuarial gains and losses of a defined benefit plan that exceeded a corridor defined in IAS 19 were recognised in the statement of financial performance over the average remaining working lives of the employees belonging to the plan; and
 - (iii) a liability was recognised for the municipality's obligation in respect of other long-term employee benefits, e.g. capped leave with the liability and expense measured actuarially and the fair value of any defined benefit plan assets offset against the liability.

As a result of the fact that an actuarial valuation report could not be submitted for audit purposes as reported in paragraph 4.5 of the audit report, the impact of the non-compliance could not be quantified.

- (h) *Non-current assets held for sale:* In terms of International Financial Reporting Standards – IFRS 5 (AC 120): *Non-current assets held for sale and discontinued operations* – where the carrying amount of non-current assets will be principally recovered through sale transactions, rather than through continued use, it must be classified as held for sale. The land forming part of the golf course development amounting to approximately R18 million or any other non-current assets meeting the aforementioned definition had

not been classified as such and measured at the lower of their carrying amounts or fair value less costs to sell. Furthermore, these assets should not have been depreciated or amortised and had to be disclosed separately on the face of the statement of financial position.

- (i) The accounting policies relating to the aforementioned standards and statements were also not throughout correctly disclosed.

4.2 Working capital changes

The decrease in debtors and other debtors totalling R20 352 323 disclosed in note 29 on page 26 of the financial statements could not be verified from the balance sheet. Uncertainty also existed with regard to the inclusion of the correction of prior year errors and change in accounting policy totalling R3 149 563 as part of the calculation for cash generated from operations in note 29, as supporting documentation for this amount could not be presented for audit purposes to verify the nature of the entries.

4.3 Investment properties

As a result of the deficiencies in the asset register and asset management reported in paragraph 4.4 of this report, numerous instances of non-compliance with the International Accounting Standards (IAS) – IAS 40: *Investment property* – were detected during the audit of investment properties. These instances of non-compliance included the following:

- (a) IAS 40 requires that a gain or loss arising from a change in the fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The investment property register reflected a gain on the revaluation of investment properties in the current year of R25 104 405. However, only an amount of R7 475 054 was credited to the accumulated surplus as the revaluation adjustment for investment properties in the statement of changes in net assets for the current year. The overall misstatement of the accumulated surplus could not be quantified.
- (b) The above amount of R7 475 054 was included in the correction of error entry amounting to a net figure of R3 149 563. The nature of the adjustment did not meet the definition of a prior period error as defined in GRAP 3 and should have been accounted for in terms of IAS 40.
- (c) The fair value adjustment of R25 104 405 included adjustments totalling R307 801 where the carrying value of assets exceeded its fair values. In instances where adjustments are made as a result of this, it should be disclosed as impairments and disclosed separately on the face of the statement of financial performance.
- (d) The cash flow statement reflected an increase in investment properties of R7 475 054, which was the same amount credited to the accumulated surplus, as the fair value adjustment for investment properties. However, the investment property register reflected no purchases of investment properties during the current year and therefore no such line item should appear in the cash flow statement.
- (e) The investment property register reflected a disposal of investment properties during the current year to the value of R215 000. The amount of the proceeds

received should have been separately disclosed on the face of the cash flow statement and the gains or losses from such disposals should be disclosed in the statement of financial performance.

- (f) The notes to the annual financial statements for investment properties did not comply with the requirements of IAS 40. The statement provides that there should be a reconciliation of the opening to closing balance detailing, *inter alia*, fair value adjustments, acquisitions and disposals.
- (g) Rental revenue from investment properties totalling R476 679, included in the statement of financial performance, should be separately disclosed. Upon inspection of the financial statements and the notes thereto, the rental revenue from investment properties could not be separately identified.
- (h) At year-end the municipality had not yet finalised a completeness exercise identifying all properties owned by the municipality and from those properties, determining which met the definition of an investment property as defined by IAS 40. Consequently the completeness of the investment properties reflected as R33 645 323 in the financial statements could not be confirmed.
- (i) Although the municipality had adopted the fair value model for purposes of valuing investment properties after initial recognition, the municipality used the municipal valuations as the fair value amounts for investment properties. This was in contradiction with IAS 40 and resulted in value of 1 840 investment properties listed in the investment property register being significantly understated. Because the municipality had not yet performed the exercise of determining the fair value of all its investment properties, the extent of the understatement could not be quantified.
- (j) Adequate explanations or information could not be obtained from the municipality with regard to the following matters relating to the investment property register:
 - (i) An amount of R16 431 848, identified as a global amount in the asset register, was deducted from the opening balance of R26 170 269 in the investment property register. The assets of R16 431 848 could not be identified in the asset register, nor could a detailed list of the individual assets be presented for audit purposes. It was also not possible to determine if the assets were assets held for sale, which should have been separately disclosed.
 - (ii) The investment property register reflected an amount of R1 539 500, deducted from the opening balance of investment properties, which related to investment properties with no value, according to the accounting system. Explanations could not be obtained to indicate why this amount was deducted. Furthermore, the investment properties with no values on the system were identified and revalued to an amount of R15 921 395. The recognition of these assets could not be identified in the asset register or in the investment property register.
 - (iii) An amount of R517 253 was deducted from the opening balance of investment properties for investment properties sold during the previous financial year. This amount should have been recorded as a correction of prior period error in terms of GRAP 3.

- (iv) An amount of R1 074 250 was added to the opening balance of investment properties for the 2004-05 financial year. This amount should have been recorded as a correction of a prior period error in terms of GRAP 3 if the information was available at reporting date for the 2004-05 financial year.

As a result of the fact that adequate explanations or information could not be submitted for audit purposes, the overall impact of the misstatement on the financial statements could not be quantified.

4.4 Asset management

- (a) Due to capacity constraints, a proper framework for asset management was not established. As a result of this the asset register did not contain all the required information in respect of detailed descriptions of assets, physical location of assets, impairment expenses for the year, accumulated impairment for each class of assets, details of any write-down or write-up in carrying value, amounts received from the disposal of fixed assets with a resultant profit or loss on the disposal and the physical condition of the asset.

As a result of the above, my audit could not independently verify the physical existence of assets totalling R13 671 016. It was also not always possible to compare the physical quantities of assets to the recorded quantities. My audit could also not independently verify assets from the floor to the asset register. Assets from the floor could only be traced to the inventory lists, which did not reflect the values of the assets and had different asset numbers to those recorded in the asset register.

- (b) Further investigation into the asset register and asset management revealed the following matters:
 - (i) Management did not finalise a physical inspection and evaluation of all assets during the year under review to identify assets that were not in working order and have those assets written off and removed from the asset register.
 - (ii) An asset count report was not submitted to the council.
 - (iii) Although assets were purchased throughout the year, the commission date of assets was set at the beginning of the year instead of the actual commission date. Depreciation was therefore not calculated on a pro rata basis for each asset, resulting in the overstatement of depreciation and the understatement of the carrying value of assets at year-end.

4.5 Provisions

Supporting documentation to substantiate the amounts and basis used to calculate the provisions for the clearing out of alien vegetation and post-retirement benefits totalling R22 725 000 could not be provided for audit purposes.

5. ADVERSE AUDIT OPINION

In my opinion, because of the significance of the matters described in the preceding paragraph and its effect on the financial statements, the financial statements do not present fairly, in all material respects, the financial position of the Overstrand Municipality at 30 June 2006 and the results of its operations and cash flows for the year then ended, in accordance with the basis of accounting determined by the National Treasury of South Africa, as described in paragraph 3, and in the manner required by the MFMA.

6. EMPHASIS OF MATTER

Without further qualifying the audit opinion, attention is drawn to the following matters:

6.1 Basis of accounting

The municipality must prepare financial statements in accordance with the basis of accounting determined by the National Treasury, as described in paragraph 3. GRAP 1: *Presentation of financial statements* requires the basis of preparation of the financial statements to be disclosed in the financial statements. The entity has not complied with this disclosure requirement.

6.2 Internal checking and control measures

Apart from the matters raised in this report which might also point to deficiencies in the internal checking and control measures and/or financial systems in operation within the municipality, various other deficiencies in this regard were also brought to the attention of the accounting officer by way of audit queries.

Matters of a more serious nature included, *inter alia*, the following:

- (a) Although the municipality had established an internal audit function, a number of weaknesses in the functioning of internal audit were identified during the audit. Amongst these, an annual internal audit plan was not established in line with a three-year rolling strategic plan and no internal audits were performed during the year under review. The internal audit department was also not suitably designed and did not operate throughout in accordance with the requirements of sections 62(1)(c)(ii) and 165 of the MFMA. The fact that internal audit was not functioning adequately increased the risk that the audit committee would not function as required by section 166 of the MFMA.
- (b) As a result of the deficiencies identified in the internal audit function, the municipality had not yet performed a risk assessment. Consequently, a risk management policy and fraud prevention plan had also not been finalised and implemented.
- (c) The municipality did not have a documented write-off policy for inventory. A system was also not in place to accurately forecast reorder levels.
- (d) Although the supply chain management regulations issued by the National Treasury had been implemented by the municipality, the municipality did not have written policies and procedures in place to ensure compliance with supply chain management and tender processes.

- (e) A rates reconciliation could not be presented for audit purposes.
- (f) A complete list of properties that were rezoned had not been established.
- (g) A schedule of distribution losses could not be presented for audit purposes.
- (h) Reconciliations were not performed between deposits held at year-end in the general ledger and the deposit register.

6.3 Subsequent events : Personnel expenditure

During the 2004-05 financial year I reported in paragraph 5.3 of the audit report on a possible tax liability relating to payments made by the municipality on behalf of a senior manager to a retirement fund, without tax being deducted thereon, as well as the fact that I recommended to Council that a tax directive be obtained from the South African Revenue Services in this regard.

After the 2005-06 financial year a payroll audit was completed by the South African Revenue Services relating to a number of employees' tax related issues. In their correspondence dated 29 November 2006 the South African Revenue Services submitted that the payments made to the retirement fund are taxable and have allowed the municipality 14 days to submit any commentary and mitigating reasons why the maximum penalties permitted under the Income Tax Act, 1962 (Act No. 58 of 1962) should not be imposed on the municipality. The municipality is, however, in possession of an independent tax opinion, obtained by the retirement fund on this matter, which contradicts that of the South African Revenue Services.

Although similar payments were not made during the 2005-06 financial year, an untaxed payment of R160 000 was made to the retirement fund on 18 July 2006 on behalf of the senior manager.

6.4 Late finalisation of the audit report

In terms of section 126(3)(b) of the MFMA I am required to submit my report to the accounting officer within three months of the receipt of the financial statements. In the interest of improving accountability and due to the process implemented by me to ensure consistency in the manner in which material audit findings are reported I have delayed the finalisation of my reports to no later than 22 December 2006 where the financial statement in question were received by 31 August 2006.

The assistance rendered by the staff of the Overstrand Municipality during the audit is sincerely appreciated.



L. ZONDO for Auditor-General

Pretoria

8 December 2006



ADDENDUM TO THE REPORT OF THE AUDITOR-GENERAL TO THE COUNCIL ON THE FINANCIAL STATEMENTS OF THE OVERSTRAND MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2006

GRAP & GAMAP:

Basis of preparation

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) and the Standards of Generally Accepted Municipal Accounting Practice (GAMAP) prescribed by the Minister of Finance in terms of:

- *General Notice 991 of 2005*, issued in *Government Gazette* no. 28095 of 7 December 2005; and
- *General Notice 992 of 2005*, issued in *Government Gazette* no. 28095 of 15 December 2005.

The standards comprise of the following:

GRAP 1	Presentation of Financial Statements
GRAP 2	Cash Flow Statements
GRAP 3	Accounting Policies, Changes in Accounting Estimates and Errors
GAMAP 4	The Effects of Changes in Foreign Exchange Rates
GAMAP 6	Consolidated Financial Statements and Accounting for Controlled Entities
GAMAP 7	Accounting for Investments in Associates
GAMAP 8	Financial Reporting of Interests in Joint Ventures
GAMAP 9	Revenue
GAMAP 12	Inventories
GAMAP 17	Property, Plant and Equipment
GAMAP 19	Provisions, Contingent Liabilities and Contingent Asset

Accounting policies for material transactions, events or conditions not covered by the above GRAP and GAMAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of GRAP 3. These accounting policies and the applicable disclosures have been based on the South African Statements of Generally Accepted Accounting Practice (SA GAAP) including any interpretations of such statements issued by the Accounting Practices Board.

6.4 **Recommendations of the Audit Committee**

Recommendations, if any, will be submitted by the Audit Committee for consideration by Council during its meeting on 25 April 2007. The recommendations could not be finalized at its February 2007 meeting as the comments on the specific matters raised by the Auditor-General in his report could not be submitted by the Administration to the Committee at this meeting. This will now be done at a following meeting. The Executive Mayor has appointed an independent person with knowledge of Municipal Accounting to assess the audit report. This report should be ready by the end of March and the Audit Committee has indicated that they would prefer to study this report before finalizing its comments and recommendations to Council.

6.5 **Report of the Accounting Officer**

As this is the first time that it is possible for the Administration to comply with the MFMA requirement that the audit report be considered as part of the annual report, as well as the adverse audit opinion, comprehensive comments are warranted.

6.5.1 **Chronology of the Audit Events**

The audit of the Auditor-General for the 2005/2006 financial year was, by all standards, fraught with controversies and practical problems.

Because of the problems experienced during the 2004/05 audit and discussed with the head of provincial office of the Auditor-General, Mr. I Jeewa (since resigned), undertakings were given by him that the 2005/06 audit will be conducted in a much more structured way. To that effect an audit plan had to be presented by his office against which the progress with regard to the audit could be evaluated by the client, Overstrand Municipality. Interactions with the Accounting Officer and Chief Financial Officer also had to be in a better regulated way. Before the start of the audit, a meeting was held on 25 August 2006 between the audit team and an audit steering committee of Overstrand.

This committee comprised the Executive Mayor, Mayoral Committee member for Finance, Chairman of the Audit Committee as well as the Accounting Officer (Municipal Manager) and the Chief Financial Officer (Director: Finance). This meeting was extensively addressed by the Audit Team Manager, Ms. Klue-Knipe, who assured the meeting inter-alia of continued structured liaison when necessary, the process of dealing with informal audit queries, the audit process and co-operation in general. She also advised that the Audit Committees' role in the process would only commence on receipt of the formal audit management letter which is issued at the end of the audit before finalizing the audit report on the financials.

Target dates for the different stages of the audit were given to the Steering Committee. The financial statements were completed in line with the legal requirements (within 2 months after end of financial year) by the Finance

Directorate and in accordance with the requirements as prescribed. The Municipal Manager was regularly updated on progress and was being updated on the efforts to prevent a qualification of the audit as happened in the previous year. This progress was reported to the Executive Mayor when requested.

On 16 November 2006 a representative of the audit team handed a document entitled 'Strategic Audit Plan' to the Municipal Manager. Although this document was received too late to assist with the monitoring of the audit, the audit team must be commended in general with the contents. The full document of 25 pages is available for scrutiny at the office of the Municipal Manager.

If such a document could have been received at the start of an audit, which may be possible in future, it would have been extremely valuable. It is regretted that this document was only handed to the Municipal Manager on 16 November 2006 whilst it was already signed by the audit team leader on 19 October 2006.

On page 23 of the aforementioned document the target dates for the audit is recorded. The following is an extract from the document:

"14.2 Target dates

	Activity	Responsibility	Target date
1	Commence with audit planning	Manager	16 August 2006
2	Submit strategic audit plan to SM	Manager	17 October 2006
3	Submit strategic audit plan to BE	SM	N/A – BE resigned
4	Commence with detailed audit planning	Manager	2 October 2006
5	Attend Audit steering committee/Audit committee (ASC/AC) meeting	BE/SM/Manager/AO/AA	25 August 2006
6	Commence with interim audit	Manager	N/A
7	Issue draft interim management letter to auditee	Manager	N/A
8	Submit written response to interim management letter to Auditor-General	AO/AA	N/A
9	Issue interim management letter	Manager	N/A
10	Attend Audit steering committee/Audit	BE/SM/Manager/AO/AA	25 August 2006
11	Send requests for third party confirmations	Manager	6 October 2006
12	Commence with final audit	Manager	16 August 2006
13	Submit publish ready, complete, and correct financial statements, signed and dated by the accounting officer/authority, and other certificates, etc. as required to Auditor-General	AO/AA	31 August 2006
14	Submit performance information for audit	AO/AA	15 September 2006
15	Submit management representation letter	AO/AA	30 November 2006
16	Issue draft final management letter	Manager	15 November 2006

17	Submit written response to management letter to Auditor-General	AO/AA	21 November 2006
18	Issue final management letter	Manager	22 November 2006
19	Attend ASC and/or AC meeting, to discuss final management letter and/or proposed audit report	BE/SM/Manager/AO/ AA	22 November 2006
20	Submit report file with audited financial statements, draft audit report, etc. to SM for review	Manager	27 November 2006
21	Submit report file with audited financial statements, draft audit report, etc. to BE for review	SM	N/A
22	Submit report file with audited financial statements, draft audit report, etc. to CE for review	BE	N/A
23	Attend AC meeting to discuss audit report and final financial statements	CFO/BE	29 November 2006
24	Issue approved audit report to auditee	Manager	30 November 2006
25	Submit Annual Report to auditee for review	Manager	8 December 2006
26	Submit English text of printer's proof of financial reports to audit for written verification thereof	AO/AA	15 December 2006

In the "Responsibility" column the acronyms are explained as follows regarding the audit team:

BE -	Business Executive	:	Mr I Jeewa
SM-	Senior Manager	:	Ms L Klue-Knipe
M -	Manager	:	Mr R Carolissen
AM-	Assistant Manager	:	Mr LJ van Rensburg

The acronyms AO and CFO refer to Accounting Officer and Chief Financial Officer. The meaning of AA is not explained.

The progress according to this timeframe proceeded well up to point 15 (although I cannot explain the N/A of points 6 to 9). The rest of the target dates were not complied with. It must also be noted that a management letter, the letter which contains the matter for final comment by our administration to matters which may be contained in the audit report, was ever received.

On 15 November 2006 a discussion took place between the Director: Finance and Ms Klue-Knipe regarding the new standards for audit. On 16 November 2006 the Municipal Manager requested an interview with Mr van Rensburg and was told that the audit was complicated by new developments which will be explained to me by Ms Klue-Knipe. This was done on 27 November 2006 when draft audit reports were also handed to me. The Director: Finance (CFO) also attended the meeting. We were informed that the Department of Finance issued new rules against which the audit should be conducted. In fact the problem was caused by the proclamation by the Auditor-General of Notice 1512 of 2006 on 27 October 2006.

I was handed a copy of a query addressed to the CFO dated 23 November 2006 which mainly dealt with these requirements. Another list of queries was also received on the same day. It is evident that the draft audit report could not have taken responses to these queries into account. It took the Auditor-General three weeks to formulate the query regarding the impact of the new audit standards, yet the CFO was given three days to respond thereto.

Ms Klue-Knipe was requested to present the matter to the Audit Steering Committee due to the gravity thereof. This was arranged for the following day. At this meeting a request of the previous day was repeated to give us time to comply at least in some respects with the new requirements as we were informed that it was possible to comply with some due to work already done. This was agreed to.

The CFO informed me that their inputs were not accommodated and that no opportunity was granted to undertake corrective amendments to the financial statements.

The final audit report was received by the Municipality on 18 December 2006, under cover of a letter dated 11 December 2006.

During a meeting of the Municipal Manager's Forum it was learnt that a meeting was scheduled between SALGA, high capacity municipalities and the offices of the Auditor- and Accountant Generals on 30 January 2007. As both the Municipal Manager and CFO were on a prescribed training course on that date, it was arranged that the Manager: Accounting Services and the Chairman of the Audit Committee attend the meeting. The outcome of that meeting was that a phasing period of three years be requested to comply, as well as a revision of on a number of requirements.

It was unofficially established that the three years implementation phase was acceded to, but that no audit reports would be amended.

6.5.2 Audit Costs

The budgeted audit fee amounts to R1 005 943. The bulk of the amounts consist of the costs of the audit team of 2890 hours at an average of R346 per hour amounting to R1m. This compares with the previous year's actual figure of R1 015 778 made up mostly by 3259 hours of the audit team at an average of R297 per hour. The costs thus far paid for the audit amounts to R1 043 906.49

6.5.3 Comments of the Chief Financial Officer of the Audit Report

Attached please find the comments on the Audit Report as received from the Director: Finance. The last column contains the proposals of him regarding corrective action.

SUMMARY OF COMMENTS : DIRECTOR of FINANCE

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
4.	QUALIFICATION				
4.1 (a)	<u>Property, plant and equipment (PPE)</u> <u>GAMAP 17; and Impairment of Assets: IAS 36 (AC128) Issues:</u> Cost, provision, useful lives of items and impairment of PPE	Included in Technical Memorandum of Auditor-General. Council was not in a position to adhere to relevant accounting standard and to ensure the correct accounting treatment thereof. All relevant non-financial managers mainly in the Technical Divisions should be capacitated to in future provide Finance Department with the necessary information.	No	All relevant staff should be capacitated to ensure that the requirements of GAMAP17 in respect of costs that should be capitalised in terms of a capital project.	A draft action plan is available to ensure that the correct methodology is followed to calculate and recognise impairment losses.
4.1 (b)	<u>Financial instruments:</u> <ul style="list-style-type: none"> Classification of financial assets IAS 39 (AC 133) Disclosure of risk management policies and exposure to credit risk as required by IFRS 7 (AC 133) 	These standards are included in the Technical Memorandum of the Auditor-General.	No	The scope of IAS 39 (AC 133) has been amended to include other issues such as financial guarantee contracts (IAS 39.2e).	A draft operating procedure regarding the correct disclosure of financial instruments is included in the OSP manual.
4.1 (c)	<u>Inventories : GAMAP 12:</u> Water stock was not accounted as inventory as required.	Took effect for the first time during 30 June 2006 financial year-end.	No	Operational Managers were unable to provide the necessary information due to the late notification of the accounting standard and the complexity and technical nature of the task.	The Operational Managers should determine a methodology to calculate the closing stock at year-end.
4.1 (d)	<u>Provisions : GAMAP 19:</u> Provisions were not discounted as required.	The administration did not have the opportunity to submit evidence in support of provisions. The Technician : Waste Management, however, was not allowed to rectify a calculation error.	Yes	Services of a professional Actuarial might be needed to determine the correct value and forecast and value of the provisions.	The correct procedure and methods should be taken by the Directorate : Municipal Services to enable Finance to apply the correct accounting treatment.

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
4.1 (e)	Revenue : GAMAP 9: Overstatement of revenue; accounting policies for revenue that were not drawn up in accordance with the relevant accounting standard.	Took effect for the first time during 30 June 2006 financial year-end. Council could not comply to standards due to the late notification by the Accountant-General.	No	The accounting treatment of transactions has been done in accordance with the existing accounting practice (accrual basis of accounting). Again, the administration was unaware of the implications of GAMAP 9 which was only received during November 2006.	Draft accounting procedure action list has been compiled.
4.1 (f)	Accounting for government grants and disclosure of government assistance : IAS 20 (AC 134): Government grants amounting to R2,6 million, which related to the acquisition of assets were not treated correctly.	Accounting standard included in Technical Memorandum that was received during November 2006 – more than 4 months after year-end.	No	According to IAS 20 government grants used to finance assets, should be recognised either as a reduction in the cost of the asset or deferred income that will be amortised, as the related asset is depreciated.	A detailed draft proposal action plan is available to address the deviation.
4.1 (g)	Employee benefits : IAS 19 (AC 116): Disclosure of accounting policies for post-employment benefit plans not in accordance with relevant accounting standard.	This new accounting standard will take effect for the first time during the financial year ending 30 June 2007 (refer to letter of the Auditor-General dated 31 Jan 07).	No	The audit observation in the Audit report should therefore be excluded in the 2005/06 Auditor-General report.	A draft operating procedure has been completed. The relevant information should be obtained from Human Resources to ensure the correct account treatment of the entries.
4.1 (h)	Non-current assets held for sale : IFRS 5 (AC 120): The land forming part of the golf course development amounting to R18 million was incorrectly classified, disclosed and measured at the lower of its carrying amount or fair value less costs to sell.	<ul style="list-style-type: none"> ▪ Took effect during 30 June 06 financial year-end. ▪ Uncertain as to the contents of the audit query as Council has certified value of raw land which amounts to R18 million. This amount is regarded as a fair value, due to the fact that it was based on the current market value at that stage. 	No	The responsibilities as outlined in the action plan must be carried out by the relevant officials to ensure compliance. Further capacitating of the Town Planning department might be needed to ensure compliance with the accounting standard in the near future.	Proposed draft OSP available.

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
4.2	<u>Working capital changes:</u> Problems regarding verification, documentation and uncertainty of transactions were experienced during the audit process.	Documentation regarding movement of the working capital account was available, such as approved writing-off list of arrears, journals, etc.	No		Documentation is available for scrutiny during the next annual audit.
4.3	<u>Investment properties:</u>				
4.3 (a) to 4.3 (j)	As a result of the deficiencies in the asset register and asset management as reported, numerous instances of non-compliance with the IAS 40	These adjustments were made in accordance with the relevant accounting standards of GAMAP to correct the audit queries of the 2004/05 financial year. The corrections were made on advice of the Chartered Accountant firm. At the reporting date, Council was unaware of the changes.	No		The Manager : Town Planning will have to undertake a process to classify all assets to identify investment properties and properties held for sale. Thereafter, the correct accounting treatment will be completed by the Manager : Financial Services to ensure compliance.
4.4	<u>Asset management:</u>				
4.4 (a)	Due to capacity constraints, a proper framework for asset management was not established. The audit could not independently verify the physical existence of assets totalling R13 671 016.	Council should compile and approve a proper strategic framework for all assets such as fixed properties, vehicles and all other current assets.	Yes	With regards to the verification of physical assets, it is unlikely that the Auditor-General can however perform an independent audit of all assets due to the following reasons:	A draft operating procedure has been completed.
4.4 (b)	<p>i) Management did not finalise a physical inspection and evaluation of all assets during the year under review.</p> <p>ii) An asset count report was not submitted to Council.</p> <p>iii) Although assets were purchased throughout the year, the commission date of assets was set at the beginning of the year instead of the actual commission date. Depreciation was, therefore, not calculated.</p>			<ul style="list-style-type: none"> ▪ The complexity in identifying special technical equipment; ▪ Assets are utilised on various operational sites during the day. <p>The contents of the audit query is incorrect, as the commission date of all assets were set at the end of the financial year. The depreciation shortfall will be rectified as a prior year error.</p>	

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
4.5	Provisions: Supporting documentation to substantiate the amounts and basis used to calculate the provisions for the clearing of alien vegetation and post-retirement benefits totalling R22 725 000 could not be provided for audit purposes.	Council was not granted the opportunity to submit documentation.	Yes		Human Resources will have to provide the necessary information timeously to ensure compliance of the accounting standard in future.
6.	EMPHASIS OF MATTER				
6.1	Basis of accounting: GRAP 1: Presentation of financial statements: the entity has not complied with this disclosure requirement.	The statements have been compiled in accordance with the specimen financial statements which were received from National Treasury prior to the late notification of the Accountant-General.	No		The latest accounting practice will be adhered to in future.
6.2	Internal checking and control measures:				
6.2 (a)	A number of weaknesses in the functioning of internal audit were identified during the audit. Amongst these, an annual internal audit plan was not established in line with a three-year rolling strategic plan and no internal audits were performed during the year under review (in accordance with the requirements of sections 62(1)(c)(ii) and 165 of the MFMA.		No		The Head : Management Services will have to compile a process plan to ensure compliance with the relevant sections of the MFMA.
6.2 (b)	The municipality had not yet performed a risk assessment. Consequently, a risk management policy and fraud prevention plan had also not been finalised and implemented.		No		According to the former Manager: Internal Audit, a consultant will be appointed to assist in the compilation of a risk management policy and a fraud prevention plan.

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
6.2 (c)	The municipality did not have a documented write-off policy for inventory.	The audit observation is supported.	No		The accounting policy of Council will be amended to include the write-off policy for inventory.
6.2 (d)	The municipality did not have written policies and procedures in place to ensure compliance with supply chain management and tender processes.	A draft supply chain management policy was submitted to the Municipal Manager for comment.	No		It is essential that the policy be approved before the new financial year as part of the policies that will have an impact on the IDP and Budget.
6.2 (e)	A rates reconciliation could not be presented for audit purposes.	The Manager: Audit confirmed that a rates reconciliation was provided to one of the audit team members. It was subsequently discovered that these original documents were misplaced by the audit team.	No		
6.2 (f)	A complete list of properties that were rezoned had not been established.	Town Planning department was unable to provide the necessary information.	No	A proper system should be developed to ensure completion of all rezoning transactions.	An effort will have to be made by the Town Planning department to provide the relevant list.
6.2 (g)	A schedule of distribution losses could not be presented for audit purposes.	The responsible Operational Managers could not provide the necessary information to Finance department at the reporting date.	No		Pro-active steps should be taken by the responsible Operational Managers to ensure compliance.
6.2 (h)	Reconciliations were not performed between deposits held at year-end in the general ledger and the deposit register.	The audit query does not refer to Council's consumer debtor deposits, but rather to minor deposit registers, e.g. hall deposits, resort deposits, etc.	No		Responsible officials should be tasked to ensure compliance with the relevant accounting practices.
6.3	<u>Subsequent events</u> : <u>Personnel expenditure:</u>	<ul style="list-style-type: none"> Payments to Retirement Fund Other employees' tax related issues 	Yes No		The applicable sections of the MFMA and other relevant legislation should be adhered to by Council to address these audit queries.

Audit Query Ref.	Description of shortcoming/deviation	Description of comments received	Was item included in previous audit report: Yes / No	Further remarks	Proposed corrective actions to be taken
6.4	<u>Late finalisation of audit report:</u>	Reasons for delay in the finalisation of the audit report are included as an Annexure in the Auditor-General's report.	No	Supported	

6.5.4 *Comments by the Accounting Officer*

The Auditor-General's report reflects an "adverse opinion" on the financial statements of the Municipality. Audit reports reflect opinions in the following order of compliance:

- Unqualified opinion
- Qualified opinion
- Adverse opinion
- Disclaimer (where the statements are rejected)

It was explained to us at a meeting that the difference regarding "qualified" and "adverse" mainly rests with the amounts involved as a percentage of the total budget. Last year Overstrand received a qualified opinion for the first time, having received unqualified opinions previously. This was due only to the early implementation of GRAP by not having a GRAP compliant asset register. This year the report reflects an adverse opinion. Insofar as the adverse opinion is a result of the new audit standards proclaimed on 27 October 2007, the following:

- It is, to say the least, ludicrous to determine audit standards requiring information which may take months or years to acquire, after financial statements have been compiled in terms of standards supplied by the Department of Finance. These are audit standards requiring accounting information which is questionable and require further refinement.
- To determine new standards for local authorities whilst the Audit-General is not complying with an imperative placed upon him by legislation of Parliament shows how everyone is having difficulty in complying with new legislation, policies and standards.
- Those aspects of the audit report relating to new standards being imposed should be viewed in the light of the background information supplied in paragraph 6.5.1 of this report.
- I have been informed that when the same standards were introduced for the audit of government departments, they were abandoned because of its effect on audit opinions. It will be interesting to see if these standards are implemented for the past financial year's financial statements of government departments.
- The provincial office of the Auditor-General has again been inconsistent in dealing with the audits of municipalities in the Western Cape. The City of Cape Town and other municipalities were given an opportunity to amend their statements whilst no opportunity was given to Overstrand to effect amendments.

The action of the administration as well as that of the Audit Committee and Executive Councillors was hampered by the fact that no management letter was issued. The fact that audit queries were received days before the audit was

completed shows that the audit programme, as supplied by the Auditor-General, was not complied with. The audit query received that late which does not take the new standards into account, also shows that the audit at Overstrand was not done according to plan by the audit team.

The Executive Mayor has appointed a consultant independent from the administration to determine whether the adverse opinion was caused only by the new requirements as well as which qualifications could have been prevented if Overstrand was given the chance to effect amendments to the financial statements. This will assist the Council in exercising its oversight role. The consultant was requested to complete his investigation during March in time for Council and the Audit Committee to consider his report before Council considers its oversight report in April. This appointment is welcomed by the Accounting Officer.

A qualified or adverse opinion is normally associated with maladministration. When the audit report, financial statements and this report is studied, this opinion must be seen in proper context. No finding of maladministration is made and the report of the independent consultant will indicate whether any of the qualifications were preventable.

With regard to corrective action, the proposals by the CFO will be evaluated together with comments by the Audit Committee, public and Council before a full report will be presented to Council. My recommendation will include referring the audit process to appropriate bodies.

In spite of the above, I must also thank the management of the audit team, especially Ms Klue-Knipe and Mr LJ van Rensburg for a cordial relationship with the administration under difficult circumstances. Many of the above problems were beyond their control due to legislative and other deadlines. It is hoped that the cordial relationship will continue despite the problems encountered.